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Still Plenty of Capacity for Growth in Robust US PRT Market

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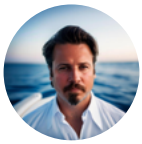


Chris Wells
Managing Editor
Life Risk News

Happy New Year.

Our first cover story of 2024 looks at what's in store for the US pension risk transfer market this year. *Aaron Woolner* spoke to **Sheena McEwen,** Head of Distribution at **Legal and General Retirement of America** and **Jake Pringle,** Principal and Consulting Actuary at **Milliman**, to get their views in *Still Plenty of Capacity for Growth in Robust US PRT Market*.

Closed-ended funds are increasingly common in the life settlement market, but there are significant idiosyncrasies that investors need to know when deciding whether an open or closed-ended fund structure is right for them. *Greg Winterton* spoke to **Jonas Martenson,** Founder and Sales Director at **Ress Capital** and **Patrick McAdams**, Investment Director at **SL Investment Management** to learn more in *Closed-Ended Funds Becoming More Common in Life Settlements but Pros and Cons Not Clear Cut*.

Last year was a year to forget – comparatively – for the life insurance insurtech space as rising interest rates put a dampener on investor demand for private markets strategies. *Greg Winterton* spoke to **Robert Le**, Senior Emerging Technology Analyst at **PitchBook** and **Keith Raymond**, Principal Analyst, Insurance, at **Celent** to see what the outlook might be in 2024 for the space in *Life, Health-based Insurtech Pulls Back Again in 2023: Outlook Uncertain*.

Body mass index is considered as one of the important vital signs in all medical records and all forms of insurance and life settlement applications screened for underwriting. **Dr Rahul Nawander**, Medical Director at **Fasano Associates**, digs into the impact of obesity on mortality in *Risk Factors and Drivers of Mortality Associated with Body Mass Index and The Obesity Paradox*, a guest article this month.

In early November last year, industry group the **American Council of Life Insurers** published its annual Life Insurers Fact Book, the organisation's deep dive into a range of sub-categories of the US life insurance industry. **Roger Lawrence**, Managing Director of **WL Consulting** presents the main takeaways in *ACLI 2023 Life Insurers Fact Book Shows Industry in Solid Shape*, an analysis piece this month.

Scott Willkomm, CEO at life settlement provider, **Life Equity,** recently completed his term as Chair of the European Life Settlement Association. *Greg Winterton* spoke to Willkomm to get his thoughts on the progress ELSA has made during his tenure in this month's *Q&A*.

The reverse mortgage market in the US has been on a multi-year decline, and recent higher interest rates haven't helped. *Greg Winterton* spoke to **Jarred Talmadge**, Independent Consultant at **JTTML Consulting** to get his thoughts on the outlook for the market in 2024 in *Interest Rates to Continue as Main Influence on US Reverse Mortgage Market Activity in 2024*.

As always, I hope you enjoy the latest issue of Life Risk News and wish you every success for 2024.

Still Plenty of Capacity for Growth in Robust US PRT Market

Author:
Aaron Woolner
Contributing Editor
Life Risk News

The US pension risk transfer (PRT) market saw a record breaking first half of 2023 with deals worth $22.5bn recorded, according to data from Legal & General Retirement America (LGRA), but full year numbers are likely to be lower than the all-time high recorded in 2022.

Despite a number of deals taking place in the third quarter, including a plan termination by aerospace firm AAR Corp, and partial buy-outs by Owens Corning and ATI Inc, there were none on the scale of the record breaking $16bn PRT conducted by IBM during the same period 12 months earlier.

LGRA's November PRT Monitor said that a total of $10bn worth of deals were struck in the third quarter of 2023 and it estimated that full year volumes would be about $45bn, below the record $51.9bn seen in 2022.

According to Jake Pringle, Houston-based Principal and Consulting Actuary at Milliman, there was no slackening of demand in the US PRT sector in the second half and that instead the busy first half meant some insurers reached their capacity limits as the year progressed.

"Because the second quarter of 2023 was so busy we started to see insurers reach capacity by the end of the year because a lot of carriers were probably ahead of schedule on the amount of business they wanted to write.

> **"In the third and fourth quarters, insurers started to be more selective and say: 'We'd like to bid on this one but we're at capacity and don't have the ability to onboard this particular plan"**
> **- Jake Pringle, Milliman**

In the third and fourth quarters insurers started to drop out and say: 'we'd like to bid on this one but we're at capacity and don't have the ability to onboard this particular plan", Pringle says.

Pringle says that despite these capacity constraints the sheer competitiveness of the US PRT market meant pricing remained competitive in the second half of 2023.

"With all the entrants that have come into the market over the last five years we know going into a PRT transaction, there will be a number of insurers which meet the plan sponsor's criteria.

But even in those cases, where we were seeing fewer insurers, it was still possible to get competitive pricing on PRT projects," says Pringle.

Sheena McEwen, Head of Distribution at LGRA, agreed with Pringle that US PRT deals are priced at a competitive level and she says that more entrants to the market are likely.

"PRT transactions are priced very attractively. Often, sponsors can get pricing which is very close to the values that they're holding on their balance sheets, and they may not even need to make additional contributions to complete a deal.

There's now over 20 insurers active in the US PRT sector, which is a lot. And I expect more to come on to the market. Exactly how many and when is unclear but the flow of new entrants is likely to continue," says McEwen.

The numbers and names of insurers active in the US PRT sector may evolve in the near term but it is almost certain to remain focussed on partial, or full, buy-outs.

According to Milliman's November Global PRT Market Outlook, 93% of US transactions in 2022 by premium value were some form of buy-out.

And while US insurer Prudential Financial took the largest chunk of a $14.2bn longevity risk transfer from Dutch financial services firm NN Group in December, McEwen doesn't expect to see a similar market emerge in the US itself.

"The US is unlikely to see the widespread uptake of alternative forms of PRT such as longevity swaps. There is a different dynamic in the market in terms of the risks that plan sponsors are looking to manage versus, say, the UK," she says.

The main reason for the US PRT market's buy-out focus is that other forms of risk transfer won't reduce a plan sponsor's Pension Benefit Guaranty Corporation (PBGC) premiums.

In 2024 these are set to increase again to $101 per head, more than double the 2014 figure of $49.

"PBGC premiums will continue to be a major driver of the US PRT market. If a sponsor completes

a full buy-out it means it no longer has to pay these premiums, as well as removing a source of volatility from its balance sheet.

A longevity swap, for example, would not bring relief from making these statutory contributions," McEwen says.

Another reason is that US pensions are not typically indexed to inflation, with Milliman's Pringle estimating that only about 25% of private sector schemes contain this benefit.

"It doesn't look like the US PRT market will slow down in 2024. There's over $3trn in private sector DB assets out there. And only one or two per cent of it gets annuitized with insurers on an annual basis. There's potential for significant annual market growth, it's very difficult to predict exactly how that's going to look, even just for next year, but there's no sign that it's going to slow down"
- Sheena McEwen, Legal and General

This contrasts with pension schemes in the UK and the Netherlands, which are typically indexed to inflation, making longevity risk transfers more attractive to European plan sponsors.

"Because UK annuities are indexed it means there is a lot more tail risk from people living longer than in the US, which is potentially why there's more value in having a market for longevity swaps in the UK and other regions.

That means when a plan sponsor is doing a cost benefit analysis of a PRT transaction in the US, it can be much more compelling to conduct a full buyout than any other kind of partial de-risking products like longevity swaps," says McEwen.

Longevity swaps may be off the menu but McEwen is confident that the US PRT market will continue to see a robust level of activity this year.

"It doesn't look like the US PRT market will slow down in 2024. There's over $3trn in private sector DB assets out there. And only one or two per cent of it gets annuitised with insurers on an annual basis.

There's potential for significant annual market growth, it's very difficult to predict exactly how that's going to look, even just for next year, but there's no sign that it's going to slow down. I can certainly say that with a high level of confidence," says McEwen.

Milliman's Pringle agrees, saying that despite the slight dip in US interest rates in December macro factors will continue to boost plan sponsor's appetite for PRT deals.

"There are a lot of plans in our pipeline that are looking to do a transaction at some point in 2024," he says.

Volatility in the UK government bond (gilt) market in October 2022 resulted in an increased interest in PRT from funds with an LDI strategy in 2023, but Pringle says the US market is different.

"For plans which have executed an LDI strategy, movements in interest rates will have a minimal impact on their decision to complete a pension risk transfer. But plans which don't have an LDI strategy in place will need to be more opportunistic in terms of how their assets are moving in relation to interest rates."

Pringle says that however interest rates move over the next 12 months, the continuing level of demand from plan sponsors for PRT deals and the capacity restraints experienced by some insurers in the second half of 2023 means there is room for more firms to enter the market.

"What was interesting to me was just how quickly some of the insurers reached capacity in 2023. I'll be curious to see if that happens again in 2024.

"There was certainly room for more players in 2023, and if an insurer is on the cusp of being able to enter the market there are plenty of opportunities for them to win some business."

Closed-Ended Funds Becoming More Common in Life Settlements but Pros and Cons Not Clear Cut

Author:
Greg Winterton
Contributing Editor
Life Risk News

Many subsets of the alternative investment industry have a preference for either open-ended or closed-ended funds. Hedge funds tend to be almost always open-ended, whereas private equity or venture capital funds tend to be almost always closed-ended.

The life settlement industry hasn't – yet – settled on one or the other. But anecdotal evidence suggests that, at least at the moment, the closed-ended model is increasingly finding favour.

A couple of reasons exist as to why, according to Patrick McAdams, Investment Director at SL Investment Management.

"It's a combination of the administrative burden and cash management considerations," he said. "A closed-ended structure makes both of these functions easier for the manager."

The administrative efforts of managing an open-ended fund, with investors coming and going frequently, is a significant task. But particularly in the life settlement space, it's the cash management effort that can provide a manager with sleepless nights.

> **"A longer notice period – say, 180 days - for redemptions is also an important feature here. Life settlements are an illiquid asset, and so rebalancing isn't like it is in public equity or credit markets. It's a benefit to the investor that redemption terms are longer, because they're going to get better results if the manager can manage the liquidation process effectively as opposed to a fire sale, which helps no-one"**
> **- Jonas Martenson, Ress Capital**

Unlike, for example, a public equity strategy where the manager might receive dividends, or a credit strategy where the manager might receive interest, life settlements are a negative coupon asset, as the fund has to continue to pay the premiums for the life insurance policy after they purchase it in order to keep it in good standing – and therefore, receive the payout when the policy matures. When an investor in an open-ended life settlement fund redeems, under normal circumstances the fund will maintain sufficient cash reserves to settle an anticipated level of background redemptions. However, sometimes the fund may need to either sell policies – which may be at a discount to the NAV, making the fund's returns worse overall – or find another investor to fund the redemption. It's a juggling act that isn't easy, but there are nuances to the portfolio construction function that makes the job easier.

"Effective cash management is key for an open-ended fund. It's a good idea to have a healthy cash buffer for any potential redemption requests," said McAdams.

"But at the portfolio level, focusing on shorter duration policies would also help. With these policies, not only are you going to be paying out less capital in premiums, but you're also receiving proceeds from maturing policies much more frequently."

Part of a successful cash management strategy in an open-ended life settlement fund comes with the redemption terms.

"A longer notice period – say, 180 days - for redemptions is also an important feature here. Life settlements are an illiquid asset, and so rebalancing isn't like it is in public equity or credit markets. It's a benefit to the investor that redemption terms are longer, because they're going to get better results if the manager can manage the liquidation process effectively as opposed to a fire sale, which helps no-one," said Jonas Martenson, Founder and Sales Director at Ress Capital.

A closed-ended fund does not have the same liquidity issues. But the flip side is that with a closed-ended fund, you're locked in, which might not be a positive.

"You might raise $500m and then deploy most of the capital in the first 12-24 months. But then, you're locked in – your portfolio is going to do what it's going to do. And if it's underperforming, from an LP perspective, then you can't get your money out unless you can sell your LP stake to a third party or liquidate the portfolio - which means you're probably taking a further discount on the NAV," said McAdams.

Deploying the capital raised for a closed-ended fund also has nuances. Most of the policies bought by these funds would have a life expectancy equal to or earlier than the end date of the fund, something which, according to Martenson, can present a challenge.

"An open-ended fund can take a longer-term view than a closed-ended fund because they can buy policies which have longer LE's, an area of the market where there is less competition," he said. "These policies are cheaper than shorter-term ones, and buying longer LE's can reduce the longevity risk in the portfolio because the extension risk is lower."

"There may be a general move towards closed-ended funds, but it's not accurate to take a blanket approach and say that one structure is better than the other in the life settlement space. They both have pros and cons because of the nuances of the asset class and differing types of investors. It's not like some other assets where one structure is clearly a better fit for all scenarios"
- Patrick McAdams, SL Investment Management

Some investors don't have a choice. The closed-ended funds tend to have higher minimum allocation sizes, which means that they are generally only available to institutions and larger family offices, as opposed to individual investors or smaller family offices. But that doesn't mean that it's bad news for smaller investors that are indirectly forced into open-ended funds.

"A lot of investors simply do not want to lock up capital for 10-12 years. By only offering a closed-ended fund, you're excluding a lot of the potential investor universe from the benefits of life settlement investing," said McAdams.

All this leads to what is ultimately, for McAdams, not a one size fits all approach.

"There may be a general move towards closed-ended funds, but it's not accurate to take a blanket approach and say that one structure is better than the other in the life settlement space. They both have pros and cons because of the nuances of the asset class and differing types of investors. It's not like some other assets where one structure is clearly a better fit for all scenarios," he said.

"What's most important is that the end investor understands the pros and cons, in particular the liquidity risk that comes with needing to sell policies prior to maturity in an open-ended structure, and the manager's ability to manage those to deliver the returns that they say they will."

Life, Health-based Insurtech Pulls Back Again in 2023: Outlook Uncertain

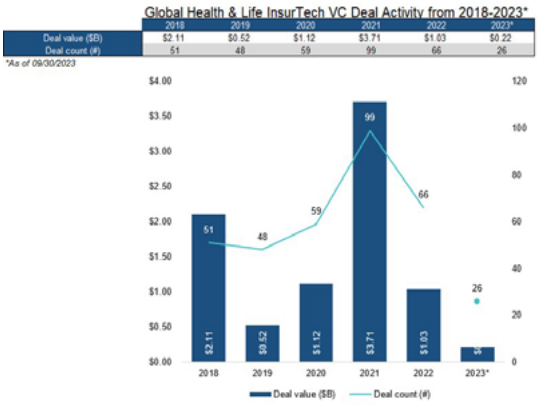
Author:
Greg Winterton
Contributing Editor
Life Risk News

Last year was one that many in the alternative investment industry would like to forget. Fundraising and deal activity fell significantly as investors rotated to liquid credit opportunities due to the relatively better yield offered by these products, along with a perceived lower risk when benchmarked against a more volatile geopolitical climate.

For those in the venture capital industry, add the collapse of Silicon Valley Bank in March and the resulting fallout amongst the start-up ecosystem, and you have something of an annus horribilis for the VC folks.

> **"For the most part there hasn't been a lot of innovation in these areas. Early insurtech companies were able to convince investors that their digital distribution will lead to cheaper CACs. But for the most part, consumers still wanted to speak to a human when making health and life insurance buying decisions"**
> **- Robert Le, PitchBook**

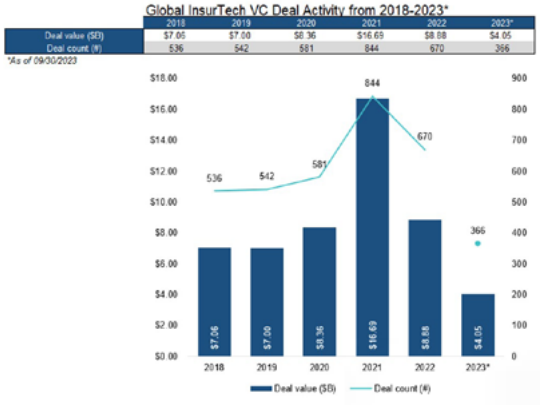
The venture capital-backed life insurance insurtech market certainly took a hit. According to data from PitchBook, through Q3 2023, the number of deals completed was just 26, less than half of the total for 2022 and only 25% of the total for 2021, and the total value of those deals was just $0.22bn, a fifth of the total observed in the previous year and down significantly from 2021's banner year of $3.71bn.



Source: PitchBook Data, Inc.

Comparing activity in 2023 to prior full years isn't quite an apples-to-apples comparison, because the data for last year only goes through the first three quarters; it'll be another couple of months until the full year data for 2023 becomes available. But, unless the fourth quarter of last year delivers extraordinary numbers, it's clear that 2023 will end up delivering a significant pull back.

Indeed, the life and health segment of insurtech that PitchBook tracks wasn't the only segment that took a hit last year. All other segments were off when compared to 2022, with the industry globally halving in terms of deal value from almost $9bn in 2022 to $4.05bn in 2023 and the overall number of deals falling from 670 to 366.



Source: Pitchbook Data, Inc.

What's notable for the life and health segment is that aggregate deal value reduced by more than the average. Keith Raymond, Principal Analyst, Insurance, at Celent, says that differences between how and why life insurance is purchased might be contributors to why VCs shied away from the space last year.

"High interest rates impact consumer spending by reducing discretionary dollars. Consumers must buy home and auto insurance to buy a house or a car, but they don't need to buy life insurance," said Raymond.

"And life solutions are generally more complex both from a product and a process perspective and can often require an agent or a relationship to navigate the purchase. P&C insurance is transactional and can mostly be done direct to consumer, and can also leverage some investments made in banking, which from a process standpoint is also transactional. VCs likely wanted to invest more defensively in 2023 than in previous years."

"It's true that various macroeconomic factors, including inflation and rising interest rates, coupled with market apprehensions and a constriction of liquidity in both public and private markets, have steered toward a pronounced correction in insurtech generally. But skepticism may linger among investors, particularly concerning the scalability and profitability of new technological integrations, which would steer them towards a more conservative approach toward insurtech for the foreseeable future"
- Keith Raymond, Celent

That's not all. Robert Le, Senior Emerging Technology Analyst at PitchBook, adds that there are factors idiosyncratic to the space which have impacted activity – or a lack thereof.

"For the most part there hasn't been a lot of innovation in these areas. Early insurtech companies were able to convince investors that their digital distribution will lead to cheaper CACs. But for the most part, consumers still wanted to speak to a human when making health and life insurance buying decisions. This is evident in that most life insurtech companies have reverted to employing human agents over the past couple of years," he says.

The S&P 500 delivered returns of approximately 24% in 2023, a significant increase that saw the index end last year close to all-time highs. Increasing investor confidence, as indicated by a rising public equity environment, and a plateauing interest rate regime might see 2024 return to growth in terms of venture capital fundraising as investors rotate back into illiquid assets, providing more ammunition to VCs looking to invest in the next insurtech unicorn.

"Based on both anecdotes (conversations with founders and investors) and data trends, we believe VC funding may have already bottomed out, and we expect an uptick in Q4 and increased funding in 2024. The publicly traded insurtech companies have recovered a bit in 2023, so that will lead to more bullish sentiment for the vertical in 2024," says Le.

But that increased bullishness will not necessarily translate directly into a boomerang-style rebound in insurtech activity this year. There has certainly been an increase in the understanding of what works in the insurtech space in the past 18-24 months and there has also been something of an emergence of winners – or not – as well. This maturation of the segment has made VCs take a more cautious approach to the due diligence process, impacting deal activity. These trends means that, for Raymond, any increase in insurtech activity this year is unlikely to mirror the resurgent public equity market in the US.

"It's true that various macroeconomic factors, including inflation and rising interest rates, coupled with market apprehensions and a constriction of liquidity in both public and private markets, have steered toward a pronounced correction in insurtech generally," he says.

"But skepticism may linger among investors, particularly concerning the scalability and profitability of new technological integrations, which would steer them towards a more conservative approach toward insurtech for the foreseeable future."

Risk Factors and Drivers of Mortality Associated with Body Mass Index and The Obesity Paradox

Author:
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Obesity, defined as abnormal or excessive fat accumulation (adiposity) presents a risk for excess morbidity as well as mortality. Obesity is traditionally measured through a simpler and reliable ratio termed as body mass index (BMI) which is expressed as weight in kilograms divided by square height in meters (kg/m2).

BMI has been found to strongly correlate with the gold standard methods for measuring body fat. Over several decades, BMI has proved itself as simpler, consistent, and reliable method for clinicians, healthcare professionals, insurance companies, and researchers to screen individuals who are at a greater risk of health problems due to their weight.

BMI is considered as one of the important vital signs in all medical records and all forms of insurance and life settlement applications screened for underwriting. Individuals are normally considered to be obese if they are 20% over the average weight or have a BMI of >30 kg/m2. [1]

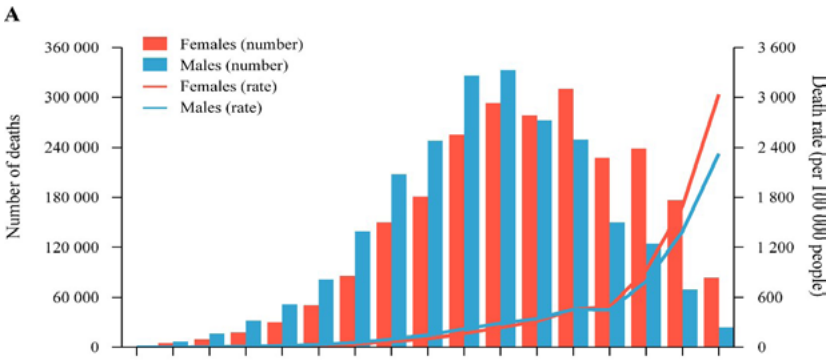
Note: We use obesity and high BMI (which is defined as BMI of >30 kg/m2) concurrently in this review article below. For simplicity of reading, we use the BMI numbers without unit in this article.

Based on the BMI, obesity is further classified as:

- 30 to 34.9: Class 1/Grade I
- 35 to 39.9: Class 2/Grade II
- >40: Class 3/Grade III

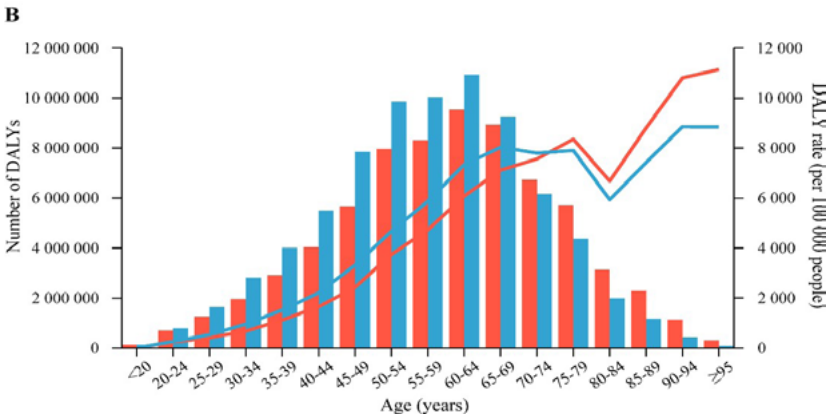
A release from global burden disease (GBD) study [2] published in 2017 noted that the diseases related to high BMI caused 2.4 million deaths and 9.7 million disability-adjusted life years (DALYs = sum of the years of life lost due to premature mortality and the years lived with a disability due to the prevalent disease or condition) worldwide in 2017. The GBD study also observed a higher death rate and DALY rate among individuals in the age group of 45 to 90 years with high BMI. See Fig 1.

Fig. 1. Age-specific numbers and rates of deaths and DALYs attributable to high body mass index by sex, in 2017 (A) Deaths (B) DALYs – Disability-adjusted life year [2]



> "BMI has been found to strongly correlate with the gold standard methods for measuring body fat. Over several decades, BMI has proved itself as simpler, consistent, and reliable method for clinicians, healthcare professionals, insurance companies, and researchers to screen individuals who are at a greater risk of health problems due to their weight"

> "Large observational studies have noted that obesity predisposes individuals to many clinical conditions including, type 2 diabetes, cardiovascular diseases (heart attack, heart failure), chronic kidney disease, site-specific cancers, musculoskeletal disorders, mental and behavioral disorders, and infections. Studies also suggest that obesity leads to disease clustering, frailty, and poor health related quality of life"



Large observational studies have noted that obesity predisposes individuals to many clinical conditions including, type 2 diabetes, cardiovascular diseases (heart attack, heart failure), chronic kidney disease, site-specific cancers, musculoskeletal disorders, mental and behavioral disorders, and infections [3] [4]. Studies also suggest that obesity leads to disease clustering, frailty, and poor health related quality of life [5] [6]. A recent observational study published in The Lancet [7] that analyzed UK biobank data and two Finnish cohorts revealed that high BMI is associated with:

- 4- to 12-fold risk of diabetes,
- 4- to 6-fold risk of sleep disorders,
- 3- to 4-fold risk of heart failure,
- 4- to 5-fold risk of gout, and
- >2-fold risk of hypertension, pulmonary embolism, deep vein thrombosis, renal failure, osteoarthritis, kidney cancer and bacterial infections.

The authors of this study also observed a linear relationship of obesity with multimorbid diseases (two obesity-associated conditions) and complex multimorbid diseases (more than two multi-morbid conditions). The risk of developing four complex comorbid conditions was found to be 4-fold in individuals classified with class 1 obesity (BMI 30 to 34.9), 6-fold in class 2 obesity (BMI 35 to 39.9), and 10-fold in class 3 obesity (BMI >40). The risk of developing these complex multimorbid diseases starts early at the age of 45 to 55 years in obese individuals compared to age of 55 to 65 years in healthy weight (BMI 20 to 30) individuals.

Obesity and Mortality

The relationship of BMI and mortality can be best explained with a 'J-shaped' curve which indicates that the excess mortality is being observed in underweight (BMI <20), overweight (BMI 25 to 30), and obese individuals (BMI >30). However, in elderly individuals the excess mortality has been observed in underweight individuals (BMI <20) and individuals with obesity class/grade 2 and 3 (BMI >35).

Insured Lives/Insurance population

Generally, applicants for life insurance tend to be younger (age 18-50 years) and healthier which could result in a better survival experience compared to the survival that is observed in the general population. Additionally, screening of healthy applicants and risk classification through the process of underwriting may result in improved survival experience for insurance companies, also referred to as underwriting selection effect. All such improved survival experiences that distinguish insurance applicants from the general population are then incorporated in the pricing of life insurance policies. As discussed

> "Several studies amongst the general population have evaluated the burden of excess mortality and life expectancy in the general population and have concluded that a higher BMI leads to excess mortality in comparison to BMI of 20 to 25. However, the results from these studies vary based on the socio-demographic factors that include geography, age, sex, smoking, and presence of comorbid conditions"

earlier, BMI is one of the risk factors that is commonly used by insurance companies for underwriting of its applicants.

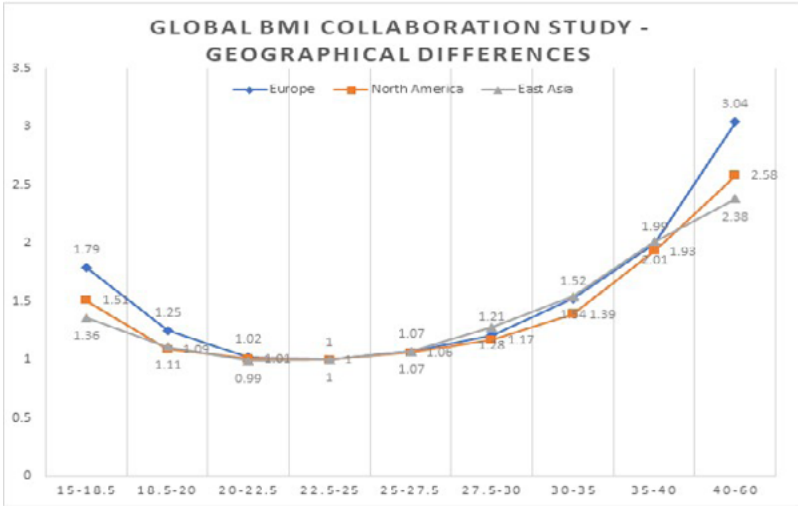
A study published in the Journal of Insurance Medicine [8] of 356,000 life insurance applicants from the insurance and reinsurance companies of Lincoln Financial Group observed that BMI of 31 to 33 was associated with a 1.75-fold risk of excess mortality and a BMI of >34 was associated with a 1.8-fold risk of excess morality in comparison to insurance applicants with a BMI of 20 to 25: Thus indicating that a higher BMI poses an increased risk of mortality.

General Population

Several studies amongst the general population have evaluated the burden of excess mortality and life expectancy in the general population and have concluded that a higher BMI leads to excess mortality in comparison to BMI of 20 to 25. However, the results from these studies vary based on the socio-demographic factors that include geography, age, sex, smoking, and presence of comorbid conditions.

Global BMI mortality collaboration study [8] that has reviewed the relationship of BMI and mortality in more than 10 million individuals noted that excess mortality due to high BMI is slightly lower in the North American general population in comparison to other continents, see Fig. 2.

Fig. 2. Association of BMI with all-cause mortality by geographical region – never smokers without pre-existing chronic disease (n = 10,625,411) [8]

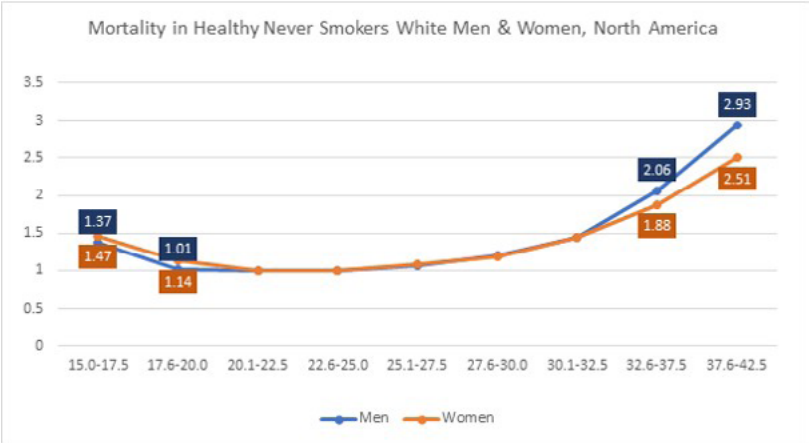


It noted that with every 5 units of BMI of >25 the excess mortality increased by 1.5-fold in men and 1.3-fold in women [9]. The authors of this study also observed a 'J' shaped relationship between BMI and all-cause mortality, i.e., excess mortality was noted in both underweight (BMI <22.5) as well as overweight (BMI >25.0) individuals.

Similar findings have been noted in a study [10] that analyzed 1.46 million white men and women from the US. It observed that the hazard ratio for all-cause mortality in healthy white men who never smoked ranged from 1.03- to 3-fold in men (BMI 27.5 to 45) and 1.03- to 2.5-fold in healthy women who never smoked (BMI of 25 to 45). See detailed estimates in Fig. 3.

> "Mortality in obese individuals is multifactorial and is dependent on variables that include geography, age, sex, smoking, and presence of cardiometabolic risk factors (e.g.: hypertension, diabetes, coronary artery disease, and stroke). These factors act as continuous variables and contribute to varying mortality experiences"

Fig. 3. Estimated hazard ratios for death from any cause according to BMI for all study participants (1.46 million white men and women of age 19-84 years) and for healthy subjects who never smoked [10]



Risk Factors Associated with BMI and Mortality

Mortality in obese individuals is multifactorial and is dependent on variables that include geography, age, sex, smoking, and presence of cardiometabolic risk factors (e.g.: hypertension, diabetes, coronary artery disease, and stroke).

These factors act as continuous variables and contribute to varying mortality experiences. Studies discussed below explore this relationship and estimate the impact of these interdependent factors.

Age and BMI

Young obese individuals in the age group of 20 to 49 years have been found to have a higher risk of mortality in the range 1.7- to 4-fold compared with individuals in the age group of 60 to 84 years, range 1.2- to 2-fold. [10]

Table 1. Estimated hazard ratios for death from any cause among healthy subjects who never smoked (1.46 million white men and women) according to BMI and age at baseline

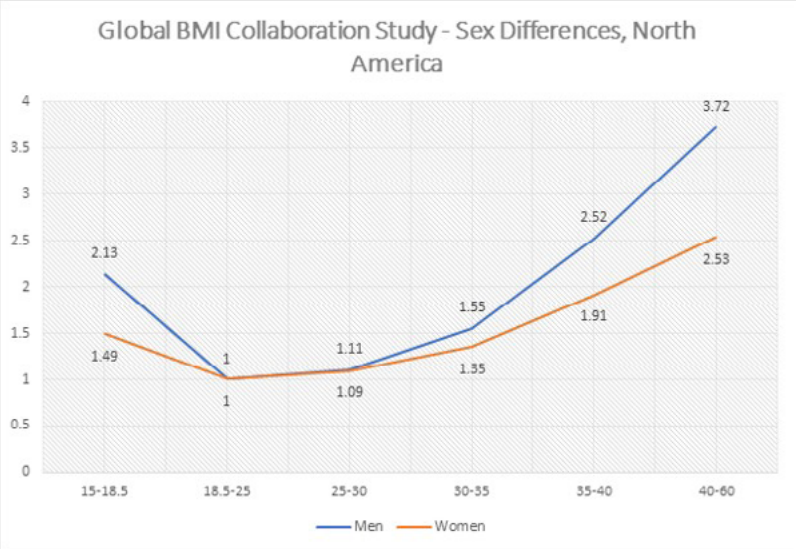
Age Group (In years)	BMI		
	30.0-34.9	35.0-39.9	40.0-49.9
20-49	1.79 (1.61-1.99)	2.48 (2.14-2.88)	3.70 (3.03-4.50)
50-59	1.56 (1.46-1.68)	2.06 (1.86-2.28)	2.77 (2.42-3.16)
60-69	1.34 (1.28-1.41)	1.77 (1.64-1.91)	2.27 (2.03-2.53)
70-84	1.24 (1.12-1.38)	1.59 (1.33-1.90)	1.91 (1.44-2.52)

Sex and BMI

Several studies have observed the relationship of sex with BMI for all-cause mortality. A meta-analysis of 293 studies with more than 10 million participants [9] observed that females tend to have a slightly lower all-cause mortality (approximately 10 to 15%) in comparison to males, see Fig. 4. Similar findings have been observed in a study of individuals from the US who were of age >70 years [11].

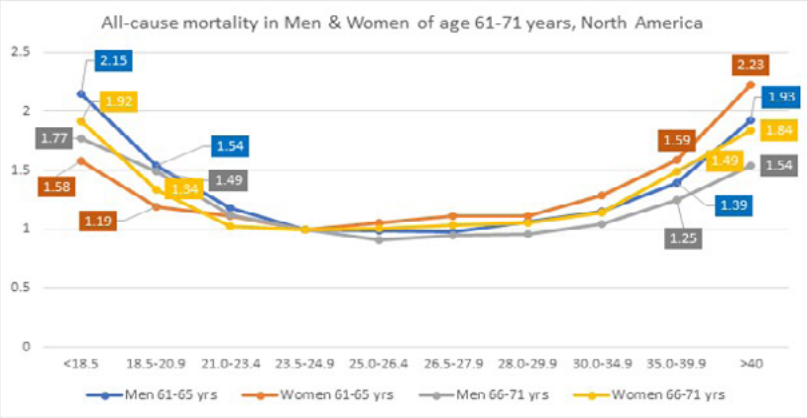
> "Association of smoking with BMI on all-cause mortality is complex and mired with controversy based on the underlying statistical models used by studies to estimate the relationship with mortality. The authors Banack et al, explain this relationship in a prospective cohort study from four communities in the US where they examined the relationship of smoking and obesity with mortality"

Fig. 4. Association of BMI with all-cause mortality by sex in North America [9]



However, a study comprising of US men and women of age 50 to 71 years [12] observed that that males have a slightly lower all-cause mortality compared to females, thus indicating age and sex plays an interdependent role with BMI. See Fig. 5.

Fig 5. Relative risk of death in men and women (527,000 US men and women) according to age after adjusting for race or ethnic group, level of education, alcohol consumption and physical activity [12]



A study of 12.8 million Korean adults in the age group of 18 to 99 years which focused on sex and age-specific association of BMI with all-cause mortality [13] observed that females with high BMI >30 in the age group of 45-74 years had lower or similar excess all-cause mortality compared to males with BMI of >30. However, the authors observed that females in the age group of 18 to 44 years and 75 to 99 years with BMI of >30 had a higher all-cause mortality compared to males for BMI of >30. The findings from the Korean study signify the impact of geography, age, sex, and genetics with BMI on all-cause mortality.

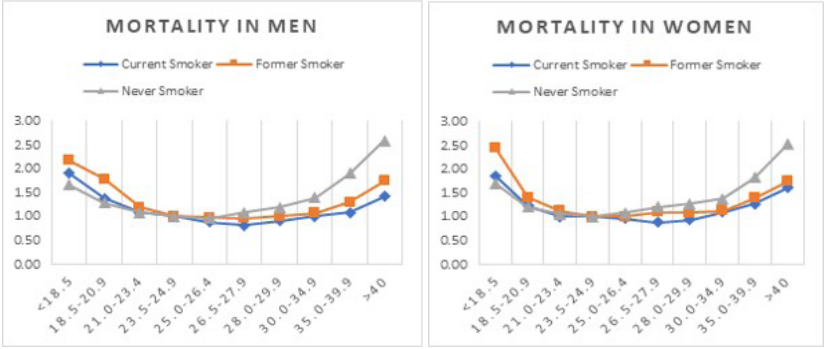
Smoking and BMI

Association of smoking with BMI on all-cause mortality is complex and mired with controversy based on the underlying statistical models used by studies to estimate the relationship with mortality. The authors Banack et al, explain this relationship in a prospective cohort study [14] from four communities in the US where they examined the relationship of smoking and obesity with mortality. They noted that the studies [12] [13] that have probably used the multiplicative

> "To summarize on the risk factors of mortality with BMI - younger (age <65 years) obese individuals (age <65 years) have higher excess mortality compared to elderly obese individuals (age >65 years); obese females have lower mortality compared to obese males; and smokers (both underweight and obese) have higher mortality compared to non-smokers"

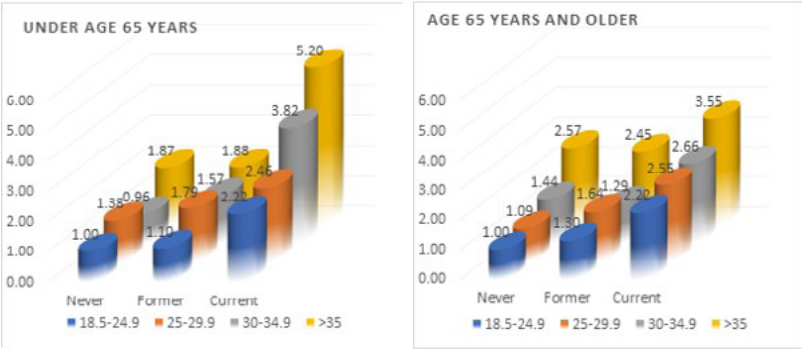
interaction model, (the product of the joint effects of obesity and smoking is greater (or less) than the product of two exposures individually) noted that *obese current or ever smokers have a lower relative risk of death* compared with obese never smokers (see Fig. 6).

Fig. 6. Study with multiplicative model that shows obese smokers have a lower relative risk of death compared with obese non-smokers [12]



However, studies [15] [16] [17] that have probably used the additive interaction model, (the number of deaths caused by the combination of obesity and smoking is greater (or less) than the sum number of deaths that would be caused independently by either exposure) have noted that *obese current or ever smokers have a higher relative risk of death* compared with obese never smokers (see Fig. 7). Banack et al, in their analysis utilized the additive interaction model and observed that the incidence rate ratio (IRR) of all-cause mortality for smoking among non-obese participants was 2.00 (95% CI 1.79-2.24), IRR for obesity among non-smokers was 1.31 (95% CI, 1.31-1.51), and the IRR for the joint effect of smoking and obesity on mortality was 1.97 (95% CI, 1.73-2.22). The findings from these studies suggest that smoking is an independent risk factor that has a higher risk of all-cause mortality compared to obesity alone (2.00 vs. 1.31) and jointly this has an effect which is greater than obesity alone (1.97 vs 1.31). Studies have also observed that the risk of all-cause mortality in underweight (BMI <18) smokers is significantly increased, 1.2- to 3-fold compared to underweight never smokers.

Fig. 7. Study [16] **that shows obese current smokers have a higher relative risk of death compared with obese non-smokers.**



Insurance applicants that smoke or use tobacco are commonly charged 50 to 80% higher base premium compared with non-smokers for the independent risk conferred by smoking on mortality for several reasons.

To summarize on the risk factors of mortality with BMI - younger (age <65 years) obese individuals (age <65 years) have higher excess mortality compared to elderly obese individuals (age >65 years); obese females have lower mortality compared to obese males; and smokers (both underweight and obese) have higher mortality compared to non-smokers.

> "While there is a risk of developing chronic illnesses due to obesity; mortality in obese individuals happens to be driven by coronary heart disease, stroke, respiratory disorders, and cancer, as well as to a plausible extent by digestive, neurological, musculoskeletal, and infectious diseases"

Drivers of Mortality in Obese Individuals

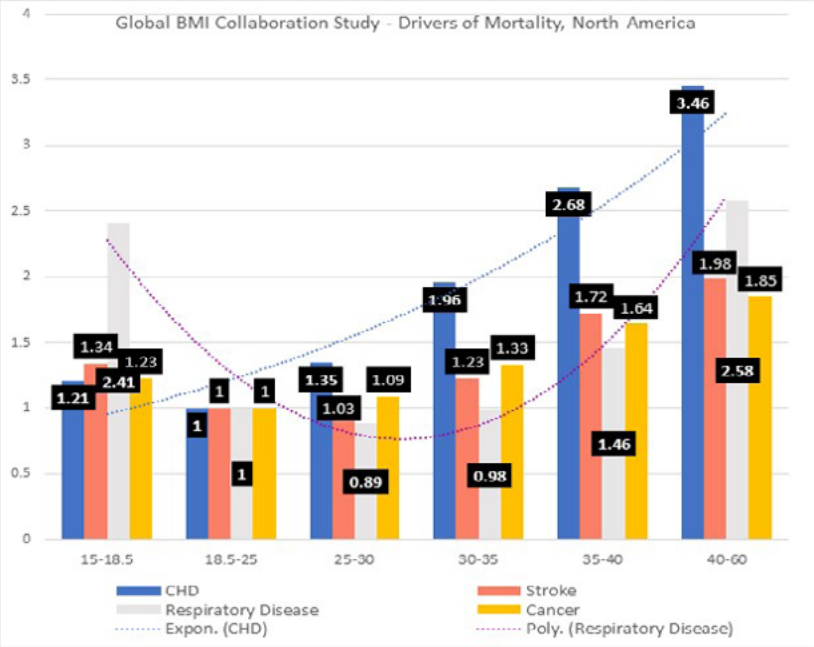
Obesity is known to be an underlying cause and/or one of the risk factors in development of cardiometabolic illnesses (hypertension, diabetes, atherosclerosis), digestive, respiratory, neurological, musculoskeletal, infectious diseases, and death. An observational study [7] that used prospective data from two Finnish cohorts and the UK biobank with >600,000 participants observed that the risk of developing these illnesses with obesity (BMI >30) ranged from two-fold to 12-fold. (See Table 2.)

Table 2. Associations between obesity and incidence of diseases.[7]

Disease category (as per ICD)	Hazard Ratio (95%I) in Finnish cohorts	Hazard Ratio (95%I) in UK Biobank cohort
Diabetes	12.14 (11.24-13.11)	4.53 (3.93-5.23)
Sleep disorders	6.27 (5.68-6.92)	4.10 (3.63-4.62)
Heart failure	4.17 (3.35-5.20)	3.24 (2.96-3.55)
Hypertension	3.20 (3.00-3.41)	1.98 (1.77-2.21)
Renal failure	2.95 (2.27-3.83)	2.32 (2.13-2.52)
Pulmonary embolism	2.86 (2.27-3.60)	2.34 (2.15-2.54)
Deep vein thrombosis	2.43 (1.96-3.03)	2.07 (1.89-2.26)
Bacterial infections	2.16 (1.97-2.37	1.43 (1.37-1.48)
Asthma	1.95 (1.79-2.12)	2.23 (1.98-2.51)

While there is a risk of developing chronic illnesses due to obesity; mortality in obese individuals happens to be driven by coronary heart disease, stroke, respiratory disorders, and cancer, as well as to a plausible extent by digestive, neurological, musculoskeletal, and infectious diseases. The Global BMI Mortality Collaboration (a large meta-analysis of 239 prospective studies) [9] observed that the risk of death due to BMI is primarily driven by coronary heart disease, stroke, respiratory, and cancer which starts to increase with BMI of >27. Obese individuals are at a higher risk of death; 2- to 4-fold due to coronary heart disease, 1.5- to 3-fold due to stroke, 1.5- to 3.5-fold due to respiratory disorders, and 1.25- to 2-fold due to cancer. See Fig. 8.

Fig 8. Association of BMI with cause-specific mortality [9]



Obesity results in an increased incidence ranging 2-fold to 10-fold of diabetes, sleep disorders, heart failure, hypertension, renal failure, pulmonary embolism, deep vein thrombosis, bacterial infections, and asthma. Mortality due to obesity is primarily driven by cardiometabolic disorders with most deaths occurring due to diabetes and its complications, coronary artery disease/heart attack, and stroke.

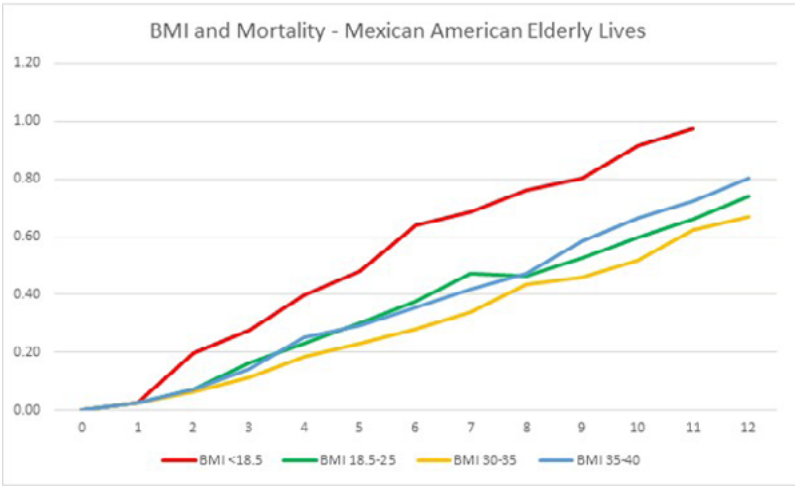
"Obesity has also been found to be linked with increased hospitalizations and surgeries. However, the impact of obesity on mortality and weight loss interventions in elderly individuals remains a controversial topic. Studies have shown that increased adiposity may have a protective effect in older adults, often referred to 'the obesity paradox'. Studies have observed that being overweight (BMI 30 to 35) could be associated with lower mortality in older adults compared to all other BMI ranges (BMI <30 and >35)"

Obesity Paradox in Geriatric Population

Obesity and its impact on mortality in geriatric population remains a topic of interest for clinicians, researchers, and insurance medicine professionals. Obesity has been found to be independently associated with greater limitations in activities of daily living and larger increase in functional impairments [18]. Studies have found that disability-free life expectancy in elderly individuals was greatest in individuals with BMI of 25-30 and those with BMI of >30 were significantly more likely to experience disability.[19] Obesity has also been found to be linked with increased hospitalizations and surgeries [20]. However, the impact of obesity on mortality and weight loss interventions in elderly individuals remains a controversial topic. Studies have shown that increased adiposity may have a protective effect in older adults, often referred to 'the obesity paradox'. Studies have observed that being overweight (BMI 30 to 35) could be associated with lower mortality in older adults compared to all other BMI ranges (BMI <30 and >35) [21][11]. Findings from these studies are supportive of the hypothesis that increased adiposity helps during frailty periods. They also support the correlative rather than causal effect relationship that though the presence of obesity increases the risk of developing chronic conditions such as end-stage renal disease and chronic heart failure, it does not predispose them to the development of advanced cancers. However, once these chronic cardiometabolic conditions are present, the obese elderly adults tend to have higher survival rates; mostly attributed to the presence of larger stores of body mass (therefore energy) as well as a better overall nutritional status.

A population-based study[22] that followed up Mexican American men and women aged 75 and older in the U.S. for 12-years observed that individuals with BMI of 25 to 35 (overweight + class 1/grade I obesity) had a lower mortality compared to individuals with an optimal BMI of 20 to 25. However, individuals with morbid obesity, i.e., class 2/grade II obesity (BMI of >35) and underweight (BMI <20) were found to have a higher mortality compared to individuals with BMI of 20 to 35. See Fig. 9. Another study of Caucasian seniors from Poland observed BMI of 35 to 39 in women and BMI of 30 to 35 in men was associated with lowest all-cause mortality[23].

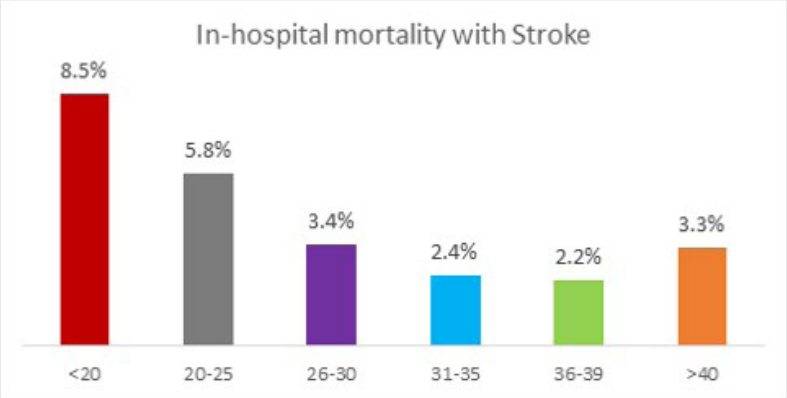
Fig 9. Relationship of BMI with survival in 1,416 Mexican American men and women aged >75 years [23]



A study[24] of 16,837 elderly individuals that were hospitalized for stroke in the U.S. observed that individuals with BMI of 26 to 39 had a lower risk of in-hospital mortality compared to BMI of <25 and >40. See Fig. 10.

"Newer studies [26] have proposed definitions of metabolically healthy overweight (MHO) individuals based on multifactorial criteria of cardiometabolic risk factors. These studies differentiate individuals as metabolically healthy based on limits/cut-offs for systolic blood pressure, lipids, waist to hip ratio, and prevalent diabetes and hypertension. MHOs have been found to have better survival rates compared to metabolically unhealthy overweight (MUO) individuals"

Fig 10. The relationship between BMI and in-hospital mortality. [24]



An overview of obesity paradox in cardiovascular diseases [25] observed that elderly individuals with class 1/grade I BMI (30 to 35) had lowest cardiovascular disease (CVD) specific mortality compared to all other BMI ranges. It noted that elderly individuals diagnosed with coronary artery disease (CAD) and BMI of 25 to 35 had a favorable prognosis and demonstrated lower risk of CVD and all-cause mortality compared with underweight and optimal BMI (20 to 25) individuals who were also diagnosed with CAD. However, these observations were limited to elderly individuals with BMI of 25 to 35. Individuals with BMI of >35 were found to have significantly elevated CVD-specific as well as all-cause mortality.

Obesity paradox to some extent is supported by hypothesis and studies; however, these relationships are complex and remain unadjusted for several confounders and comorbid impairments noted in elderly individuals.

Outlook

Newer studies [26] have proposed definitions of metabolically healthy overweight (MHO) individuals based on multifactorial criteria of cardiometabolic risk factors. These studies differentiate individuals as metabolically healthy based on limits/cut-offs for systolic blood pressure, lipids, waist to hip ratio, and prevalent diabetes and hypertension. MHOs have been found to have better survival rates compared to metabolically unhealthy overweight (MUO) individuals. In future, we may see more research studies that explore these multifactorial relationships that impact mortality in obesity.

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ACLI 2023 Life Insurers Fact Book Shows Industry in Solid Shape

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In early November last year, industry group the American Council of Life Insurers (ACLI) published its annual *Life Insurers Fact Book*, the organisation's deep dive in to a range of sub-categories of the US life insurance industry.

As always, there are many notable takeaways from the document. Some of the most notable include the following:

- After a record high for total claims payments made on life insurance contracts in 2021, 2022 saw a fall back. Death claims paid on individual life contracts fell 7.7% from $73bn to $66bn
- Surrender payments rose 5.3% from $27.4bn to $28.8bn
- Aggregate assets of insurers receded to $8.3trn from £8.7trn, but they're still up from 2020 which stood at $8.2trn
- Insurers' total Interest Maintenance Reserves (IMR) fell 43.3% to $28bn
- Insurers' total Asset Valuation Reserve (AVR) fell 8.8% to $88bn
- Capital Ratios including AVR dropped to 10.5% from 11.1% and the measure for their excess surplus capital compared to the regulatory minimum (the Risk Based Capital Ratio or RBC) dropped marginally from 443% to 426%
- Premium income on life insurance products rose 3.3% from $165bn to $170bn (individual contracts being $137bn to $139bn of which $19bn was the first year's premium on new regular premium contracts which was marginally down from $21bn in 2021)

> "An increasing proportion of life insurer's business is from the annuity stream which is primarily matched by bonds and other credit assets. Whilst the value of those assets fell as yields rose, so too did the liabilities. The drop in bond values hit the IMR reserves hard from capital losses, but the impact on the RBC ratios was relatively small, demonstrating how resilient a life insurer is to market volatility if they maintain well-matched assets"

These observations are notable for many reasons. The economic backdrop to 2022 was one which saw most central banks, including the Fed, only just starting to react seriously to the emerging inflationary risk with regular hikes in central bank lending rate. Russia's attack on Ukraine causing an energy price squeeze compounded the inflationary pressures, leading to the yield on benchmark 10-year US Treasuries rising from 1.5-% to 3.9%. The S&P 500 fell from 4,766 at the start of the year to 3,840, a drop of 19.5% that is very close to the 20% 'full-blown bear market' territory.

Meanwhile, by the end of the year, US price inflation had fallen to 6.4% after starting the year at 7.5% and peaking at 9.1% mid-year. Despite the downward trend in H2, consumers had experienced a year of prices rising at levels they had grown unaccustomed to over more than a decade and the effect hit household budgets hard.

An increasing proportion of life insurer's business is from the annuity stream which is primarily matched by bonds and other credit assets. Whilst the value of those assets fell as yields rose, so too did the liabilities. The drop in bond values hit the IMR reserves hard from capital losses, but the impact on the RBC ratios was relatively small, demonstrating how resilient a life insurer is to market volatility if they maintain well-matched assets.

Equities represent a relatively low fraction of total assets although they do tend to support proportionately more of the life insurance book, and whilst the drop in equity values was less than it was for bonds, 2022 was not a good year. Tech stocks, which have an outsized influence on equity index performance, have had a roller coaster ride since March 2020, with valuations, having surged in 2021, unwinding significantly in 2022, nearly all of which has been captured in this year's ACLI figures - and notably in the drop in insurers' AVRs.

"It is not entirely inconceivable that certain product types have witnessed reductions in sales whilst others have grown as customers requiring protection products seek out the cheapest options, and Universal Whole of Life with age-based charging may have a marginal edge over level premium alternatives. The reported figures may just be a case of people opting for smaller face amounts to fit with their current budgets. Either way, the drop in new regular premiums is not unexpected in a difficult economic climate and a small reduction in such a difficult year is not a harbinger of a systemic decline in new policy sales"

Death claims dropped in 2022. It's likely that the surge in Covid-related claims in 2020 and 2021 falling away had an impact here. The ACLI report publishes insurer's experiential mortality rates (but only a year in arrears, so the 2022 values are not yet available) and the age-standardised mortality rates insurers experienced in the years 2018-21 were 7.2, 7.2, 8.4 and 8.4 (per 1,000 lives, males and females combined). The step up between 2019 and 2020 is 16.7%, a significant uplift, likely due to Covid. The drop in the value of claims paid by only 7.7% suggests that the mortality experience in 2022 still is being affected by Covid, either directly, or from the emerging longer-term effects of people with early stage diseases such as cancer not presenting in a timely manner during lockdowns.

In contrast to death claims, surrender payouts rose by value. The numbers of surrenders are not provided in the ACLI report, so it's not possible to be certain that a rise in the surrender value also means a rise in the actual numbers of surrenders. However, it is hard to see policies that attract surrender values rising substantially in value during the year because where policies have accumulated value that can be paid out as a surrender value, the value per policy is unlikely to have been noticeably larger in 2022 than 2021, or certainly not 5.3% or more larger. If this theory is correct, this means that an increased number of policies were surrendered in 2022.

An obvious cause for the rise would be financial pressures on households and, whilst US jobs numbers have held up, there will have been pockets of job losses potentially forcing policy cancellation. Weaker economic growth into 2023 and darker recessionary clouds on the horizon suggest some continuance of these patterns for a while yet, which means that the life settlement industry stands to help more policyholders unlock further value during this period.

If times are bad for many policyholders, leading to higher lapse rates, then it ought to be true that new product sales would be impacted. The ACLI figures do bear out a small drop in new regular premiums but, as with the surrender value data, we don't have information on numbers of new policies written in 2022 (we have only the aggregate premiums). It is not entirely inconceivable that certain product types have witnessed reductions in sales whilst others have grown as customers requiring protection products seek out the cheapest options, and Universal Whole of Life with age-based charging may have a marginal edge over level premium alternatives. The reported figures may just be a case of people opting for smaller face amounts to fit with their current budgets. Either way, the drop in new regular premiums is not unexpected in a difficult economic climate and a small reduction in such a difficult year is not a harbinger of a systemic decline in new policy sales.

Overall, the top-line data from the ACLI's 2023 Life Insurers' Fact Book suggest an industry that has weathered the dual impacts of Covid and the macroeconomic challenges of the past almost four years rather well.

Life ILS Conference 2024

Registration information coming soon.

TUESDAY 21ST MAY 2024

LONDON, UK

Life Risk News

Q&A

Scott Willkomm
CEO, Life Equity

Life Equity CEO, Scott Willkomm, concluded his tenure as Chair of the European Life Settlement Association last month. Greg Winterton spoke to Willkomm to get his thoughts on his time as Chair at ELSA, and his views on the life settlement market more broadly.

GW: Scott, your term as ELSA Chair concluded at the end of December. You've been Chair for a number of years: what will you look back on with pride the most when you hand over the reins?

SW: When I became chair of ELSA, one of the main things I noticed was that we needed a full-time Executive Director. At the time, we had a part-time executive director, but I, along with others, felt that we required a more dedicated resource. We were looking for someone who had experience in the industry and could lead us in the right direction. That's why we decided to hire Chris Wells for the role, given his previous experience in the industry.

It was crucial for us to hire a full-time staff member as, at the time, we were representing an asset class that was plagued by historic baggage. Therefore, a lot of work had to be done to elevate ELSA's reputation as an ambassador for the industry and our membership. To reach a broader audience, we launched the Life ILS conference and the Life Risk News magazine. As a result, we have doubled our membership and increased engagement from ELSA members. It is important to note that these accomplishments took time and effort. Although there is still room for progress, we are proud of what we have achieved so far. Everyone who has been involved in this journey deserves recognition for their contribution.

GW: As ELSA transitions to a new leadership, what are some of the challenges – and opportunities – facing the organisation?

SW: It's been a challenge to expand the universe of active participants in the market. Having been around the ILS space, it always struck me as funny that life settlements and structured settlements side of the life risk market was always well developed before catastrophe bonds, but for the life side, it's been a case of it 'not going to the right school'. That will continue to be a challenge, but the market has changed and evolved quite meaningfully in the past six or seven years and while there are still some vestiges of the unsavoury elements remaining, they are largely in the past, they're yesterday's news. But we have to be willing to confront those sentiments that people who are not particularly well informed about the space throw out at you every so often.

Also, everyone talks about how much potential there is in this market, the raw numbers, the universe of policies be purchased and why hasn't some of that happened. One of the challenges is a lack of competition and that in turn is because the investment necessary to compete is large. That's the biggest impediment to near term growth in this industry. But I see challenges and opportunities as being somewhat similar in our market, and ELSA will be able to keep itself quite busy taking the level of engagement to the next level in the next few years.

GW: Moving onto something at the industry level now. At the beginning of the year, you said that you would like to see more investment in market expansion from the broker channel, and that supply issues are still a challenge in the secondary market. Is this still the main hurdle that the industry must negotiate? If so, is there any low hanging fruit that could be picked to make a difference here?

SW: When we spoke a year ago, my thought was that in a market where there is a large direct to consumer component – and one that is growing rapidly - brokers need to carve out a niche. That's not getting the average seller to fill out the forms and shoot it out to the market as a whole. Brokers can add real value for either the higher end, highly advised people who have their insurance

embedded in a estate plan or a wealth plan. They can do what they do best, which is in-depth education.

I also think the registered investment advisor space is largely an untapped opportunity for life settlements – more so from an origination standpoint, than an investment standpoint – although that should not be overlooked. I've spoken with RIAs about life settlements, but it's something that isn't presently in their day-to-day lexicon. But it requires work and effort to go after them.

GW: In terms of the broader life risk universe, we've seen upheaval in the life ILS market in recent months, and a general pull back in terms of institutional investor appetite for alternative investments like life settlements and life ILS. What's your message to investors about life-linked investing generally?

SW: The message hasn't changed. The context as to that message being delivered has changed. We started talking to the ILS folks because they are cousins to the life settlement industry. In terms of who we might consider engaging with, I think the credit space makes a lot of sense because the smarter, more insightful folks who have been ILS practitioners approach the business like the credit business. The great benefit is limited correlation to other segments, which dovetails well with the ILS guys. We've gone through a weird interest rate environment in the past couple of years, but it may be settling out in 2024 and returning to some degree of normalcy which will make the case for investing in life settlements more competitive than it has been in the past year when compared with the cat bond market. But we see sector rotations in the broader markets all the time, and that we've experienced that shouldn't be all that surprising to us. Sometimes you go out of favour, and that's nothing to do with the underlying fundamentals of the investment. But I'm hopeful that before too long, we'll see sector rotation back into our market.

GW: Finishing up with life settlements again, Scott. Fast forward to this time next year. What would need to happen in 2024 for the life settlement industry to consider it a good one?

SW: If we only see single digit growth in the secondary market, I think that will have been a disappointment. Despite what I said earlier about competition, if the yield curve becomes more rational and positively sloped this year, then we probably have less excuses to put up if we're not able to achieve growth in double digits.

And we clearly need to expand the universe of investors. A big win would be a meaningful commitment from a major institution, like a household name. But I don't mean an investor that gets into our space at 30 cents on the dollar; I mean one that likes it at 100 cents on the dollar. A big firm making a splash would be a big win.

Interest Rates to Continue as Main Influence on US Reverse Mortgage Market Activity in 2024

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The Home Equity Conversion Mortgage (HECM) accounts for nearly all reverse mortgages in the US, and for the US Department of Housing and Urban Development (HUD)'s fiscal year 2022-23, the number of HECMs fell by around 50% when compared to the prior year. Indeed, the industry has been on a general downward slope since the heady days of 2007 – 2009, when more than 100,000 mortgages were issued to Americans each year.

If the industry is to turn the trend around, it will need to navigate some headwinds. Higher interest rates are the obvious challenge du jour, with the US Federal Reserve's effective interest rate being, at the time of writing, 5.33%, the highest since February 2001.

> "To take out a reverse mortgage in the US, you have to have counselling from a HUD-approved reverse mortgage counselling agency. If you go ahead, then you have origination fees. Then you have real estate closing costs and an initial mortgage premium. And then there are ongoing costs. So, if you want to take out a reverse mortgage for $250,000, it's not impossible that 25% of that will be eaten up in costs. People think, 'here's this big wall of money, and I have to give 25% of it to the government?' That thought process short circuits many people" - Jarred Talmadge, JJTMBA, LLC

Interest rates have plateaued, however. And inflation in the US is currently 3.1%, down from a recent peak of approximately 9% in the middle of 2022, so those Americans with half an eye on the reverse mortgage market to access capital tied up in their home will be hopeful that rates will begin to fall, making their reverse mortgage less expensive should they decide to take the plunge.

Those that do face a dizzying array of costs, however. It's something that, according to Jarred Talmadge, Independent Consultant at JJTMBA, LLC, in Denver, CO, serves as a significant deterrent to moving forward with a reverse mortgage.

"To take out a reverse mortgage in the US, you have to have counselling from a HUD-approved reverse mortgage counselling agency. If you go ahead, then you have origination fees. Then you have real estate closing costs and an initial mortgage premium. And then there are ongoing costs. So, if you want to take out a reverse mortgage for $250,000, it's not impossible that 25% of that will be eaten up in costs. People think, 'here's this big wall of money, and I have to give 25% of it to the government?' That thought process short circuits many people," he said.

Regulators have been trying, in recent years, to stem the decline and stimulate demand. As with every year, HUD is increasing the Maximum Claim Amount (MCA) of the HECM program – in 2024, this is set to be $1,149,825 – in order to increase the number of American homeowners who can access a reverse mortgage, for example.

But industry insiders like Talmadge say there's a more fundamental problem that is contributing to the current drop in demand.

"The standards for the industry were set back in 2018, when rates were near zero. As a result, the ability to calculate what a borrower can take out of their house, was determined by near zero interest rates. In a rising interest rate environment, the ability to borrow has been diminished, due to the requirements for reserves, by FHA. So, where a borrower who was in their mid-sixties could have borrowed up to 40% of their equity, at times when interest rates were low, that number has more than halved down to about 18%."

Another hurdle the industry needs to navigate is that of a lack of awareness. A recent survey by reverse mortgage lender Mutual of Omaha suggests that 74% of homeowners in the United States 'have little knowledge of reverse mortgages'.

The awareness challenge in the market is not only one of outright ignorance. Misconceptions abound amongst those that do have some level of knowledge; Mutual of Omaha's survey suggests that 40% of those Americans think that their heirs won't inherit their home, which is incorrect: whilst

the heirs will have to pay the balance on the reverse mortgage, they can remortgage to do that, or settle it in cash.

"The general public in America don't understand that there isn't a negative equity issue in the reverse mortgage market," says Talmadge. "They [the regulators] won't let you inherit the debt. The product has to some degree been vilified and misrepresented."

"The market will also need help from the FHA, to loosen the restrictions on the amount a client can borrow. There is room between the current standards and still making sure clients will have equity in case of a sale later down the road. By boosting the available funds to even 60% of the borrower's equity, and then changing the marketing to focus on the benefits to the clients, the non-bank lenders could thrive, and it might entice the banks to get back in the game" - Jarred Talmadge, JJTMBA, LLC

There was something of a post-Covid bump in 2021-2022, which Talmadge attributes to many Americans wanting to try and avoid going into a care home because of the perceived risks around communal living and spreading viruses and diseases, but that fear has subsided, at least, for now. And while interest rates will likely be the primary factor influencing the market in the short term, Talmadge says that some out of the box thinking is required to really help the market to grow.

"Someone needs to have the wherewithal to buck the trend and put into place a new marketing strategy that shows the benefits of reverse mortgage in a way that the public accepts," he said.

"The market will also need help from the FHA, to loosen the restrictions on the amount a client can borrow. There is room between the current standards and still making sure clients will have equity in case of a sale later down the road. By boosting the available funds to even 60% of the borrower's equity, and then changing the marketing to focus on the benefits to the clients, the non-bank lenders could thrive, and it might entice the banks to get back in the game."

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