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Life Settlement Market Pays More Than $800m To US Consumers In 2023 As Industry Pushes For Greater Awareness

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03 Editor's Letter
Chris Wells, Managing Editor, **Life Risk News**

04 Life Settlement Market Pays More Than $800m To US Consumers In 2023 As Industry Pushes For Greater Awareness
Greg Winterton, Contributing Editor, **Life Risk News**

06 Recent Court Decision Close Enough to a Win for Life Settlement Industry
Greg Winterton, Contributing Editor, **Life Risk News**

07 Roundtable: Life Expectancy Underwriters
Greg Winterton, Contributing Editor, **Life Risk News**

13 Insurance Companies: An Underserved Sector
Dan Knipe, Chief Investment Officer, **Kilter Finance**

15 Can Radical Life Extension Happen Again? Relevance for Life Settlements
S. Jay Olshansky, Chief Scientist and Co-Founder,

17 Q&A: Ailish Finnerty, Partner, Arthur Cox
Greg Winterton, Contributing Editor, **Life Risk News**

19 Conflicting Views in Calculation of Latest Continuous Mortality Investigation Model
Greg Winterton, Contributing Editor, **Life Risk News**

Editor's Letter, Volume 3, Issue 05, May 2024

Chris Wells
Managing Editor
Life Risk News

In April, industry group LISA was at an NCOIL meeting proposing amendments to NCOIL's Life Settlements Model Act that would support growth in the secondary market. It followed that up in early May by publishing the 2023 edition of its Market Data Collection Survey. *Greg Winterton* joined the dots, with comments from **Bryan Nicholson**, Executive Director at **LISA**, **John Dallas**, CEO at **Berkshire Settlements** and Chair of **LISA**, **Alan Buerger, Coventry First** Co-Founder and Executive Chairman and **ACLI** spokesperson **Whit Corman** in *Life Settlement Market Pays More Than $800m To US Consumers In 2023 As Industry Pushes For Greater Awareness.*

A recent decision from Florida's 5th Judicial Circuit Court provided something of a good news story for the life settlement market as, while the death benefit still accrued to the estate of the insured, it did so net of premiums paid, a first for the industry. *Greg Winterton* spoke to **Jule Rousseau**, Partner at **ArentFox Schiff**, in *Recent Court Decision Close Enough to a Win for Life Settlement Industry*, to learn more.

Our Roundtable: Life Expectancy Underwriters article this month sees *Greg Winterton* asking questions of **Chris Conway**, Chief Development Officer, **ISC Services**, **Vince Granier**i, CEO, **Predictive Resources**, **John Lynch**, Director of Actuarial and Underwriting Services, **Longevity Holdings**, **Sean Malone**, President and CEO, **Longevity Services** and **S. Jay Olshansky**, Chief Scientist and Co-Founder, **Lapetus Solutions** with regards to the opportunities and challenges impacting their corner of the market.

Insurance companies should represent a compelling investment for any allocator. So says **Dan Knipe**, Chief Investment Officer at **Kilter Finance**, in *Insurance Companies: An Underserved Sector*, a guest article this month.

Just what is the plausibility of radical life extension occurring again? Not very, explains **S. Jay Olshansky**, Chief Scientist and Co-Founder at **Lapetus Solutions**, in *Can Radical Life Extension Happen Again? Relevance for Life Settlements,* our second guest article this month.

Our *Q&A* this month features **Ailish Finnerty**, Partner at law firm **Arthur Cox**. *Greg Winterton* spoke to Finnerty to get her views on why Ireland is such a popular home for life settlement structures, and the regulatory horizon in the country.

The Institute and Faculty of Actuaries' Continuous Mortality Investigation (CMI) published CMI_2023, its annual update to the CMI Mortality Projections Model in mid-April. Notably, there was a disconnect between insurer and reinsurer actuaries and pension consultants and other actuaries with regards to the weighting of the 2022 and 2023 data in this latest projection. *Greg Winterton* covered this one, with comments from **Cobus Daneel**, Chair, **CMI Mortality Projections Committee** and **Roger Lawrence**, Managing Director at **WL Consulting**, in *Conflicting Views in Calculation of Latest Continuous Mortality Investigation Model*.

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

Life Settlement Market Pays More Than $800m To US Consumers In 2023 As Industry Pushes For Greater Awareness

Author:
Greg Winterton
Contributing Editor
Life Risk News

US-based industry group the Life Insurance Settlement Association (LISA) published its 2023 Market Data Collection Survey report in early May. The report, now in its third year, collects secondary market transaction data from the organisation's life settlement provider members, which it says represents more than 95% of transactions in the secondary market overall.

The headline this year is that the life settlement market paid out more than $843m in the calendar year 2023 to US consumers who sold their life insurance policy, up from $790m last year, and $750m in 2022.

"The data collected by LISA in our Members Annual Market Data report evidences the societal benefit of our industry to the American consumer," says Bryan Nicholson, Executive Director at LISA.

"LISA's provider members buy policies from insureds across the US; it's likely that portions of the $840m in liquidity that our industry realised for seniors last year circulated into their local communities," he adds.

> **"The data collected by LISA in our Members Annual Market Data report evidences the societal benefit of our industry to the American consumer" - Bryan Nicholson, LISA**

Another of the data points LISA collects relates to the additional dollars that life insurance policy sellers receive over and above the cash surrender value – the amount they would receive if they sold the policy back to the insurance carrier.

John Dallas, CEO at Berkshire Settlements and Chair of LISA, says that this information is as important as the headline number.

"The benefit that the life settlement industry offers to Americans can only really be understood when comparing the money received from a life settlement transaction to the cash surrender value of the policy. In 2023, this number was $707m, representing a six times multiple on average for those that sold their policy," Dallas says.

LISA also tracks the number of transactions closed by its members in the secondary market as part of its annual data gathering initiative.

Last year, 3,213 deals were closed, up from 3,079 in the prior year. What's notable here is that other consumer life markets are either stagnant or in retreat; the equity release market in the UK and reverse mortgage market in the US are feeling the effects of higher interest rates on demand for these solutions, something that doesn't seem to be impacting the life settlement market.

LISA's latest report comes on the heels of lobbying efforts that it hopes will provide additional fuel to accelerate what has been a growing market in the past few years.

In April, the organisation presented testimony to the Life Insurance & Planning Committee (LIPC) of the National Council of Insurance Legislators (NCOIL) at its spring meeting in April at that highlighted two areas where LISA would like to see changes to the regulatory regime: one relating to process, and one relating to awareness.

The process amendment LISA is seeking speaks to the expeditiousness – or lack thereof – of the current transaction process in the secondary market. It is requesting that NCOIL mandates carriers to allow electronic authorisations and implement a maximum 21-day turnaround for change of ownership requests.

"Because of their complexity and the substantial regulatory requirements attached to each transaction, the life settlement process is relatively slow. That is exacerbated by delays at the carrier level in obtaining basic necessary information, such as policy illustrations and verifications of coverage. These proposals, which directly impact the consumer experience, would simply codify what should be the norm in 2024," says Nicholson.

It's LISA's second proposed amendment that would be a silver bullet for the life settlement industry, however. It wants to make prohibiting a life insurance producer or broker from disclosing to a client the availability of a life settlement contract unlawful.

Alan Buerger, Coventry First Co-Founder and Executive Chairman presented LISA's proposal to NCOIL's LPIC.

"This recognises that, in the 17 years since the model was last amended, there is a basic awareness among producers of the market and of the type of clients (senior owners of universal life policies) who, if they are considering surrender, might be able to access a better result in a life settlement transaction," he says.

The American Council of Life Insurers (ACLI) apparently doesn't agree that the model needs any adjusting.

> **"The amendments to NCOIL's life settlements Model Act that we are proposing seek to further solidify this benefit by making transactions quicker and raising awareness"**
> **- John Dallas, LISA**

Whit Corman, a spokesperson for the ACLI, told Life Risk News in an emailed statement that: "The model was heavily negotiated over a period of two years with input from insurers, producers, consumers, and the life settlement industry. Without evidence of harm to consumers, ACLI does not support renegotiating these provisions."

NCOIL's LPIC voted to reauthorise the current model for three more months, until NCOIL's Summer Meeting in July, so until then, the status quo remains. For Dallas, however, LISA's recent efforts serve to highlight what he says is a significant opportunity for the American consumer.

"The data that we collected in our Market Data report this year shows the benefit that our industry is bringing to the American senior," he said. "That's the bigger picture for the life settlement industry, and the amendments to NCOIL's life settlements Model Act that we are proposing seek to further solidify this benefit by making transactions quicker and raising awareness."

Recent Court Decision Close Enough to a Win for Life Settlement Industry

Author:
Greg Winterton
Contributing Editor
Life Risk News

The life settlement market has seen a few litigation cases in the state of Delaware in recent years whereby the estate of a deceased has brought a claim against a life settlement asset manager to recover the death benefit of the life insurance policy.

In these cases, plaintiffs argued that because these policies specifically were purchased using a premium finance arrangement (under which the insured borrows money to pay the premiums) they violated Delaware law on insurable interest when they were issued.

Recent Delaware decisions suggest that in these situations, the death benefit should go to the estate, so the consequence of these cases has been that the court has sided with the plaintiff, meaning that the asset manager, despite paying the premiums to keep the policies in force – often, for many years - has had to return the death benefit in full to the estate of the insured.

A recent decision in the 5th Judicial Circuit Court for Marion County, FL, however, provided something of a welcome 'win' for the space.

In U.S. Bank, N.A. v. Estate of Albart, judge Steven Rogers of the Circuit Court of Florida, Fifth Judicial Circuit (Marion County) ruled that, while the death benefit was due to be repaid to the estate, it must be done net of the premiums paid to the insurer for coverage. U.S. Bank is acting as the securities intermediary for Viva Capital 3 L.P., which is ultimately owned by affiliates of Blackstone.

> **"It's important to bear in mind that the offset for premium can be significant since the policies being litigated are well over 15 years old. In some cases, the premiums paid may exceed the death benefit"**
> **- Jule Rousseau, ArentFox Schiff**

Life Risk News understands that the decision is the first of Delaware cases to permit an offset for premiums paid, something that could be significant for any additional cases brought before the courts.

"It's important to bear in mind that the offset for premium can be significant since the policies being litigated are well over 15 years old. In some cases, the premiums paid may exceed the death benefit," says Jule Rousseau, Partner at law firm, ArentFox Schiff.

This 'win' for Blackstone – and the life settlement industry at large – will provide welcome relief for asset managers that still have premium-financed policies in their portfolios. Life settlement asset managers regularly assess litigation risk before purchasing policies and therefore make a judgement call with regards to whether they would want exposure to this risk at all, and if so, what price that risk price is worth.

Most of this risk exists, however, in the industry's tertiary market, where larger portfolios are traded between investors; it is not unusual for the same policy to be traded multiple times over time. However, the secondary market rarely sees premium financed policies anymore, and they don't represent a significant percentage of the industry.

"The specific issue in here is that of policies purchased with non-recourse premium finance loans. While there may be some legacy policies of this type in the tertiary market, as they mature, they'll exit the market, and they're not being replaced. The litigation activity makes it seem like this is a bigger issue than it really is to the industry at large," said Rousseau. "Overall, the risk to the market as a whole remains low.'

Representatives for neither Blackstone nor Cozen O'Connor, counsel for the Estate of Edward Albart, had responded to a request for comment by press time.

Roundtable
Life Expectancy Underwriters

Chris Conway
Chief Development Officer
ISC Services

Vince Granieri
CEO
Predictive Resources

John Lynch
Director of Actuarial and Underwriting Services
Longevity Holdings

Sean Malone
President and CEO
Longevity Services

Life expectancy is one of the largest influences on the performance of a life settlement investment, and the space continues to evolve with advances in new technology and society's understanding of mortality. Life Risk News' *Greg Winterton* spoke to **Chris Conway**, Chief Development Officer, **ISC Services**, **Vince Granieri**, CEO, **Predictive Resources**, **John Lynch**, Director of Actuarial and Underwriting Services, **Longevity Holdings**, **Sean Malone**, President and CEO, **Longevity Services** and **S. Jay Olshansky**, Chief Scientist and Co-Founder, **Lapetus Solutions** to get their views on the current state of their sector, its challenges and opportunities.

GW: Let's start this year's roundtable from an investor's perspective. If you were hired by an institutional investor that was considering allocating to a life settlement asset manager, and that investor asked you: 'What should I ask the manager about how they use life expectancy analysis?', what would be your advice?

CC: One thing I think is very important to highlight for investors is that different managers use life expectancy reports differently, and how they use the information we provide is critical for investors to understand. Investors often think the underwriting work is driven solely by actuarial factors, that the 'calculator is the key,' but it isn't. Calculators are driven by input; they don't drive input. An incorrect risk assessment applied to the 'best' table will produce an invalid result. The risk assessment part of what we do determines the input and the calculators themselves all generally do the same thing in the same way. However, all underwriters do not assess risk the same way and investors need to understand the bases for a given underwriters approach.

VG: There are many considerations with this one because different managers use LEs differently. Since we are just getting started, let me provide a general comment and a specific comment. Generally, I would ask what led them to the decision to use LE estimates in the manner that they do. More specifically, I would ask for evidence that their decisions have been good ones (e.g.: their A/E experience is favorable and there are demonstrable differences between the cases they considered but rejected and ones they actually sold).

JL: I would want to make sure that the fund manager has a full understanding of the range of outcomes embedded in the reports. It's important that fund managers understand that if mortality is understated by x%, then, for example, that means that y% of the lives might live twice as long. Understanding the full range of longevity risk is important.

Additionally, the underwriting report tries to give you a picture of mortality. It's a snapshot; a point estimate that describes the nature of a mortality curve and embedded in that is a one-time estimate of an insured's mortality profile. The longer you go since the most recent life expectancy report, the less accurate the previous picture becomes. Some fund managers are more aware of this than others.

SM: I would ask the manager how the life expectancy reports inform their own views of longevity. Do they focus on the mortality curve, the median LE, mean LE, or mortality rating? How does the summary of the patient's medical history influence your view of the case? I think it's important for life settlement asset managers to have their own unique perspective of life expectancy that is supported by the life expectancy underwriter's reports.

JO: If I was the CIO for, say, a multi-family office, I would be most interested in how close the LE provider's assessments come to the observed event of interest (e.g., maturation or alive). I wouldn't care about observed differences in LE assessments of particular cases -- this is expected and normal when different methods and procedures are used to generate such estimates. What I would say is that an investor needs to gain comfort with the credentials of those generating the assessment

S. Jay Olshansky
Chief Scientist and
Co-Founder
Lapetus Solutions

for the asset manager; ensuring that their asset manager uses LE providers that operate in the open, with no black box, where the LE assessments are explained and defended using the tools of medicine and science are what is important here. If an LE provider generates an LE without telling the manager how and why they arrived at their number means the investor should be pushing on the manager to change providers.

GW: Now let's turn this around. If you were hired by a manager to help them 'sell' their life expectancy underwriting skills as a reason why the investor should allocate to them, what would you say?

VG: We've created a tool to test our clients' underwriting skills (or their ability to uncover good cases) so the first step would be to evaluate their skills using this tool. Assuming they pass muster, then the asset manager can then explain to their potential investor that they have demonstrated their understanding of life expectancy underwriting, as this will have been validated by an independent, external provider. This could be used as the basis for explaining to the potential investor about how they have successfully bought and sold policies.

JL: The benefit to an asset manager of working with an external provider is that we're providing an unbiased view. We're not representing insureds, or carriers; we're providing an unbiased view of a mortality profile. I'd say that it's important to explain the value of an independent opinion to an investor.

Another important element is to use life expectancy providers that have the most data, because without credible data it's impossible to claim accuracy statistically. Also important is to use an LE provider that admits where they might have got things wrong - and what they have done, or are doing, to reassess in a manner that makes sense.

SM: If I'm a life settlements asset / fund manager, I would tell the investor about the importance of using an independent, external provider that focuses solely on underwriting for life settlements. It's very important in our industry to understand that general mortality tables are not appropriate for the life settlement market, because of the specific nature of the cohort that this industry focuses on. Data-driven and customized mortality tables help the fund manager to more accurately price policies, and consequently, the manager's ability to deliver strong returns for their clients will be enhanced.

JO: I'd point out that there are only a limited number of providers and I'd explain the differences in the ways the different providers generate their estimates – which requires the LE provider to be transparent in terms of how they operate and therefore arrive at their conclusions.

Then I'd focus on how the manager can utilize this knowledge to their benefit – is there an arbitrage opportunity here? How do they view and use shorter or longer LEs relative to other companies evaluating the same patient? How do they decide whether to use a shorter or longer LE in what situation during the buying process? It's worth emphasizing that some companies generate LEs that tend to be longer or shorter than those generated by other companies because some may not be utilizing the full medical record with a thorough understanding of the patient's health trajectory across time and their response to treatments. For example, I reviewed a case not long ago of a patient that had what appeared to be a severe lung disease, but after a deeper inspection of the medical records, that individual had been responding well to the treatment protocol. If all one looks for are keywords for impairments that are linked to a prescribed debit to LE, they would be underestimating survival in this case. The reverse can also be true.

CC: Well, the first thing I would tell them is not to tell investors that they have "underwriting skills." In general, they don't. In the same way I am not an underwriter (I am an owner and operator of an underwriting firm), most asset managers are not underwriters (or actuaries, for that matter). What I would advise managers to tell prospective investors is (1). That they have a "view" (an opinion, if you will) relative to longevity risk, (2) what their view is based upon (ie: what process did they go through to develop their position), (3) how they apply their viewpoint to the external underwriting information they receive from external sources, including life expectancy assessments produced by independent underwriters, and (4) the degree to which their viewpoint is applied in their processes of buying, holding and selling longevity risk instruments.

GW: How much of a problem is false information on a medical record? Is it common, indeed, do insureds ever lie, and can this issue ever be solved for?

JL: Both our underwriting businesses, TwentyFirst and Fasano, have the default position that we are medical record-driven, and on the validated medical notes, we have a certain level of belief there that we feel is credible.

That said, we do scans for doctors that are no longer licensed, checks for social security numbers, and other scans that might provide us with insights into the validity of other data points. This all gives us a higher confidence level that a medical record is legitimate.

If our underwriters feel that there is misleading information or misrepresentation, they have the ability and authority to remove debits or include credits to account for that. And ultimately, we use this as a last resort, but we occasionally respond with a “no quote.” We saw something last year where someone wanted us to redo a LE without an updated report from the attending oncologist from the last LE report three years ago, which we responded with “no quote” and requested the updated medical notes from the oncologist before proceeding with a life expectancy report.

SM: There are different types of false information regarding medical records. A patient might not be truthful when telling their doctor how many alcoholic beverages they consume, or how often they smoke or exercise. I think this is common, and we use whatever details are in the records for our analysis. In rare occurrences, there might also be false medical records themselves. For example, someone might try to offer up a doctor’s note that is not authentic. In that case, we would inform that client that we cannot accept the document unless it is an actual medical record and it will be excluded from our analysis.

JO: There are lots of places where incorrect information can enter the LE estimation process because people may misrepresent their information, which is mostly unintentional when it happens. But largely, we have to use what is given to us and assume that it is accurate.

That said, regardless of what is placed in front of us, we still have to use good medical judgement with consistency. You might see two medical records, three months apart. One might have the insured at 200 pounds and the other at 170 pounds. That can make a big difference when you’re looking at BMI as a risk factor – we have to determine whether that’s a typo or whether the person actually lost 30 pounds in three months, and why, for example. In a situation like this, we stop our review, go back to the client and get a definitive weight on the patient. The same goes for situations where we see them listed as a non-smoker, and sometimes a current smoker. Sometimes people are listed as taking one medication for an impairment, and in the next medical record they are taking a different medication. Why? Was there a typo? Did the patient have to change medications for some reason? These are all significant variables in an assessment because different medications have different effects. When there is ambiguity in the medical records, we prefer to go back to the client to confirm what we’re seeing rather than assume anything. You have to go back and get up-to-date medical information in situations like these where you see inconsistencies.

CC: We generally do not see a copy of the original application for life insurance among the materials submitted to us for assessment. We’d like to, but clients do not provide this to us. That said, after 40 years working in and around the life insurance industry, I don’t think prospective insureds lie so much as they may be guided to present the best possible picture of themselves when they apply for new coverage. When applying to sell a policy in the secondary market, insureds may also be guided to emphasize impairments, but I think this is extremely rare given the underwriting process is very good at ferreting out any such activity and there are many other factors involved in determining eligibility for life settlement.

VG: These issues really begin with the initial life insurance application, which we don’t often see. Unsurprisingly, prospective insureds are focused on highlighting the positive aspects of their health, while potential life settlers are doing exactly the opposite. Two sides of the same coin if you will. Our assessments always search for the truth, irrespective of the biases introduced in the process.

As for the medical records themselves, it’s not so much that records are being falsified or someone else’s records are being substituted (although that does happen from time to time), it’s more errors of omission and commission. We fight this by eschewing self-reported information and requiring independent confirmation of these assertions. We also cross reference impairments with other information in the file (e.g.: the subject’s drug history and labs), to ensure that there is consistency. Someone claiming to be a diabetic should have insulin or metformin in their drug history and periodic A1c tests in their lab records.

GW: Many life settlement industry participants bemoan the time it takes to complete a sale. Moving on to electronic health records would seem, therefore, like a silver bullet for the industry. But it’s not that clear cut, is it?

SM: Electronic health records would probably be easier to source and analyse. I know that it can be difficult to get doctors or hospital staff to send medical records required for a life settlement transaction. Would that change if the records were electronic? I can say that as an LE provider, electronic health records would likely save minutes or hours per case, not days or weeks. We are just a part of the process to complete a sale.

JO: If the information in EHRs was accurate then yes, there would be a benefit in terms of time savings. Keyword searches, for example, would return results quicker than manually going through handwritten medical records. But you have to be 100% certain that handwritten notes are transformed accurately. At this time we just don’t trust the accuracy of EHR, which is why we read the medical records, especially if they are handwritten. So, for firms like ours that still read the medical records then the increased use of EHRs wouldn’t have an impact. Perhaps in the future we'll feel more confident in using EHRs. I should point out that at Lapetus we are constantly looking for ways to improve and streamline our procedures, and we have explored various options for generating electronic medical record summaries – that is likely going to be our first move into automating one element of our assessment process.

In terms of the overall time span for a life settlement transaction, particularly in the secondary market, I doubt that speeding up this part of the LE assessment process would have a material impact on the market. There are many other components in a life settlement transaction that, if solved for, would have a much greater impact.

CC: The main thing here is that ultimately, user error is the primary risk, whether that's paper records or electronic ones. Someone can say that they are not a smoker, and the person entering the data can check the wrong box. And correcting that data is enormously difficult. You can contest a credit report, for example. But to correct an error like this, which would have an enormous impact on your life insurance policy – and therefore on the life settlement industry, if that policy ever entered the market – is orders of magnitude in terms of time and complexity when compared to correcting a credit rating.

If every single life insurance policy that we see was in the form of an EHR then there would be a time savings, but I'm not sure this benefit would have as much of an impact on the life settlement market as it may seem on the outside. Many other factors go into the process of buying a life settlement, and they each add time to the sales cycle. EHRs are only one component of a larger process.

VG: First, I should point out that EHRs are only one part of Digital Health Data (DHD), along with claims data, RX data, portal base data and wearables. Fully understanding DHD can provide the needed holistic view.

As for EHR, the pros include speed, potential for widespread use, and a comprehensive view of the subject (including, diagnoses, prescription drug usage, laboratory and diagnostic test results, treatment plans, and more). The cons include low hit rates (35-45%), the prevalence of unstructured data (especially with respect to highly impaired lives), the need for extensive skills and technical abilities to fill in gaps and standardize available data and, of course, the cost in both time and money to remedy these weaknesses.

There are many misconceptions regarding EHR, many promulgated by wishful industry participants who deny or downplay the above cons. Further, there is a tendency to oversimplify the issue and presume the DHD presents a complete view of a subject's health. One misconception is this idea that DHD alone can replace underwriting judgment in assessing risk. As appealing as that sounds, it just doesn't work that way.

As for the transaction itself, we are not at the 'silver bullet' stage yet, and may never be. There is potential to move the needle, but premature adoption of this unproven technology will likely be painful for some investors who are lured in by the siren song of the early adopters. In the end, it may injure the credibility of this new approach and delay widespread adoption.

JL: Two things here. First, in terms of electronic health records themselves, they are still not 100% accurate. There are too many false positives, which may be beneficial for a shorter LE, but the accuracy levels are not there. We're currently not endorsing current technology, and not using them in our underwriting.

In terms of the process to complete a life settlement, then the tertiary market obviously can move a lot quicker as you would already have more timely electronic records that can be validated or scanned. But that would only shave a few days off the total time in a secondary transaction. Is that really the biggest roadblock to quickening the buying process in life settlements? In a future state, with 100% accuracy and proper connectivity of availability of that data, and a standardised framework, there could be some pros there, but not at the current moment. This isn't the piece that's holding the market back.

GW: Last one for this year. In terms of your ability to provide as good of a product or service to your customers as you can, what is one thing holding you back, and one thing that enables you to do just that?

JO: The most important thing that enables us to do our job as well as we can is also the thing that holds us back, which is to be provided with the most updated, thorough, complete records on the patient as possible. If you want the best report possible from Lapetus, give us the most recent information that exists, but also provide us with a medical history so we can assess the health trajectory of the patient. Using only a snapshot in time of the patient's medical history misses some of the most highly relevant information that can be used to assess survival prospects. Keep in mind that people move into and out of states of ill health, so health trajectories across time are an important element of the evaluation. We can only evaluate what we see. If we're working with information that's a year or two old, we're not going to be able to give you as accurate of an LE as we can with data that's only a month or so old.

CC: The one thing that holds us back the most is probably access to capital. It's probably the most significant factor inhibiting our ability to evolve, invest, and most importantly, innovate more quickly. We do invest and we do pursue these objectives to the greatest degree possible, but there is not enough interest from investors in the underwriting sector itself despite its role in underpinning nearly all the assets and transactions across the industry. The thing we believe enables us to provide the best service we can is first and foremost our team of underwriters and the depth and breadth of their skill set, including our breadth of experience gleaned from having played many other roles in the industry. Having walked (many) miles in our client's shoes over the years, we believe we truly understand their perspective and can therefore meet their needs where they are.

VG: As an eternal optimist, I will lead off by answering the second part of the question first – at Predictive, we have folks with many years of experience in the disciplines needed to provide an excellent life expectancy product – information technology, underwriting, actuarial, statistics, digital health data and industry knowledge. What's holding us back? The transactional, short-term focus of the market, and its shallow understanding of the true nature of an LE.

JL: In terms of holding us back, then I'm not sure that there's anything specific to LE providers like us, but there is a looming cloud for the life settlement market more broadly, which is that we're now in a pivotal time with STOLI lives hitting expected mortality. A lot of these lives that are currently in the 85-95 range are expected to live to late-90s, maybe early 100s. Firms like ours can decipher which ones are more likely to and which aren't. But a lot of buy and hold firms aren't refreshing LEs and are relying on assessments from five+ years ago. If you think about how fast medical advancements have been just in the last few years, that means that these investors are operating with old information. There could be higher impairments which have now fallen off and you're going to have an older yet healthier pool today than originally five years ago.

In terms of enabling, I look to the future - about 10 years' time. Fast forward, and you'll see Artificial General Intelligence emerging at 99% accuracy. We'll be funnelling data through an assessment similar to how a highly trained medical director can perform assessments now, taking into consideration all current studies in reputable journals to link prior experience with future expectations. That could mean a future state where things could be turned around in real time. But 10 years is the earliest estimate in our view: I'd be wary of anyone who says they have figured it out today because LLMs are based on brute force predictive algorithms on past information only. The best quote I've heard describing the skillset of today's ChatGPT and other LLMs are like having 10 highly skilled interns.

SM: Our customers enable us to provide the best service. We always appreciate client feedback or the opportunity to discuss a case that we've competed. However, if a customer wishes to discuss a case while we are working on it, or they are missing important documents or information, then the process could take a little longer. Our best work comes from good collaboration with our customers.

Insurance Companies: An Underserved Sector

Author:
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> "An insurer will have a relatively large balance sheet which it invests into high-quality, diversified investments so that when needed, they are available to pay policyholder claims. In addition, the insurer will hold extra financial assets – for regulatory reasons - which provide financial resilience against unexpectedly large losses"

Relative value is a concept which is familiar to investment professionals across all sectors. Generalist investors and asset allocators have a broad opportunity set into which they can deploy their capital and make relative value a part of each decision.

Sector specialists who focus on a narrower investment universe in private markets must be extra vigilant and keep perspective. In private debt, this means having the discipline and rigour to price bilateral transactions with reference to the returns available for comparable risk profiles both within your industry and across industries.

Insurance companies should represent a compelling investment for any allocator. An insurer pools the individual risks of its policyholders so that potentially large losses for each of them is mitigated. This creates a strong societal benefit. With products that clearly fulfil customer needs, it should be, and is, possible for insurers to provide products which customers value and thereby generate shareholder profits.

This is a good start for a lender as they think about the credit profile of their borrower - but how does that compare to other debt opportunities?

An insurer will have a relatively large balance sheet which it invests into high-quality, diversified investments so that when needed, they are available to pay policyholder claims. In addition, the insurer will hold extra financial assets – for regulatory reasons - which provide financial resilience against unexpectedly large losses.

The private debt market can provide insurers with finance for the more remote parts of these excess assets, which provides the lender with the protection of asset-backing. This contrasts with corporate credit where debt is measured relative to profits, with security and repayment of the debt being more reliant on the future sales and revenues of the borrower.

The purchase of many insurance policies is either long-term or repeated. On the life insurance side of the market, premiums are often a long-term commitment by the policyholder and are paid over many years. In the non-life corner, policies are more often annual purchases, but form a permanent feature of a customer's financial planning; in both life and non-life, persistency with the incumbent insurer is high. When compared to some other sectors, the revenues, and profits, of an insurer should therefore be more consistent. Again, consistency in profits are credit positives for the sector.

The source of returns in the insurance sector are often differentiated from other debt. The insurer earns money from asset risk and from liability risk. Inherent within the liability risk is the premium for the insurance risk undertaken, but there are also excess risk-adjusted profits the insurer can earn from its balance sheet diversification. It is possible to charge policyholders a healthy risk-premium, which reduces the volatility of their financial outcome, while at the same time creating incremental profits for low marginal risk on the diversified balance sheet of the insurer.

Insurance debt has strong fundamentals and provides a good level of absolute return. On a relative value basis there are further considerations which make private insurance credit attractive. While the largest insurance groups can access financing from debt capital markets, there is a long tail of financially strong insurers who do not have the size necessary for the public markets.

> **“The insurance industry as a whole continues to grow. In the non-life segment, secular trends are leading to more people having more possessions of greater value, which they need and want to insure. In the life segment, the accumulation of wealth and a desire to protect that wealth drives demand for asset-based life products”**

This large group of insurers is underserved and may often be funded inefficiently – usually, purely with equity. Their options in the private debt markets may also be limited due to the need for a lender to have the sector expertise and insights to underwrite the business and its balance sheet but the credit quality of these counterparties can still be very high. Regulatory rules require these insurers to have balance sheet strength as good as, or perhaps greater, than their larger peers; in contrast to some other industries, a smaller business does not necessarily mean weaker credit.

The insurance industry as a whole continues to grow. In the non-life segment, secular trends are leading to more people having more possessions of greater value, which they need and want to insure. In the life segment, the accumulation of wealth and a desire to protect that wealth drives demand for asset-based life products. Leaning into these trends, insurance companies have opportunities to grow - which will require a larger capital base. For equity funded businesses, introducing a modest level of borrowing can facilitate that growth by bolstering the regulatory capital base of the business.

The demand for borrowing from insurance companies is, and looks set to continue to be, in excess of the level of supply. Capital allocators should find that now is an excellent time to consider the absolute and relative attractions of private insurance debt.

Can Radical Life Extension Happen Again? Relevance for Life Settlements

Author:
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"The rise in life expectancy and survival to extreme old age has been one of the more fascinating features of human mortality dynamics in the last 150 years and has been largely a byproduct of humanity's successful efforts to combat disease"

One of the most attractive investment features of life settlements is the regularity and predictability of human survival. In fact, for those of us that study longevity for a living, it is well known that one feature of human longevity that has never changed throughout history is the age trajectory of death. This means the risk of death doubles every seven to eight years after puberty – a feature of human survival that is as constant as the sunrise every day. This constancy has been referred to as a "law of mortality".

While investors in this asset class should be assured by this "law", this doesn't mean people won't live longer. In fact, the rise in life expectancy and survival to extreme old age has been one of the more fascinating features of human mortality dynamics in the last 150 years and has been largely a byproduct of humanity's successful efforts to combat disease. We live longer now because we actively pursue life extension through medical and public health interventions – not because a long life was endowed upon us all.

Why is this distinction important? Because a debate has emerged in the last few decades that might have given some pause about investing in life settlements out of a fear that most people today will live to 100 or older.

I can pinpoint the exact source of this claim – it came from a mathematical demographer who created a historical "best practice" life expectancy table showing the countries with the highest life expectancies across time.

He then extrapolated this into the future and concluded from it that most people will live to 100. This is equivalent to projecting that all of us can run a four-minute mile because a few can do so. Based on a new research paper I've written with colleagues that will soon be published, I can assure you this is highly unlikely to happen in this century.

Back in 1990, my colleagues and I published an article in Science in which we estimated that the maximum life expectancy for humans is about 85 years – 88 for females and 82 for males.

Since these are population averages, a lot of people would need to survive beyond ages 90 and 100 for this maximum life expectancy to occur. Shortly after our paper came out, some mathematical demographers vehemently disagreed with this view – claiming instead that advances in medical technology would occur in this century at an accelerated pace, resulting in an acceleration in the rise in life expectancy and that most people would live to ages 100 and older.

These were two diametrically opposed viewpoints about the future of human longevity that would have profound implications for everything associated with survival – including among them, investments in life settlements. If these researchers were right, life settlements would be an unwise investment because the estimates of survival by those companies responsible for generating them, would likely underestimate longevity – yielding much smaller ROIs or even negative returns.

Three decades have now passed since this debate began so it's possible to use empirical evidence to determine which of these two opposed views about human longevity actually occurred and is likely to occur in the future.

So, what exactly did we find? We examined several population-based survival metrics for nine of the longest-lived populations in the world from 1990-2019:

1) annual average rate of improvement in life expectancy at birth;

2) proportion of birth cohorts expected to live to 100;

3) reduction in mortality required for life expectancy at birth to increase (referred to as life table entropy); and

4) lifespan inequality (a metric that shows compression or expansion of the survival distribution).

It's worth noting that radical life extension occurred only once for humans in our history – during the 20th century – when life expectancy at birth arose by about three years per decade. If radical life extension had been occurring or is likely to do so in the future, the rate of increase in life expectancy would need to be at least at this pace observed in the past.

Based on the last three decades of observed mortality in the longest-lived populations, the annual improvement in life expectancy at birth that operationally defines radical life extension was never reached except briefly in South Korea.

The rise in life expectancy decelerated rapidly from 2010-2019 against a tailwind of medical advances that should have had the opposite effect. The percentage reduction in total mortality required to raise life expectancy at birth by one year increased uniformly across time in all countries.

Lifespan inequality declined consistently – which means the distribution of death is compressing instead of shifting or expanding, and life table entropy increased and converged – implying that future increases in life expectancy will be even more difficult to accomplish than today. All metrics of human mortality change since 1990 indicate clearly that radical life extension did not occur, and it is not occurring now.

> **"While humanity's battle for a long life has largely been accomplished and should be considered a success story for public health and medicine, medical interventions should now focus on extending healthy life rather than increasing length of life"**

We concluded that the era of rapid increases in life expectancy due to the first longevity revolution has come to an end. Radical life extension now appears to be implausible in this century and no more than 10-15 percent of babies born in 2019 are likely to survive to age 100. While humanity's battle for a long life has largely been accomplished and should be considered a success story for public health and medicine, medical interventions should now focus on extending healthy life rather than increasing length of life.

Humanity is now at a point in our survival story such that most people that reach ages 65 and older are living on what we refer to as "manufactured time" – survival time created by medical technology and public health.

We can continue to create Band-Aids for the things that go wrong with us as we grow older, but the older we become, the more difficult it becomes to manufacture life. Life's game of whack-a-mole has pushed us into age windows where the moles appear more rapidly and closer together – making further life extension more difficult, unless we change the rules of the game. In the end, we concluded that a second longevity revolution of a fundamentally different kind is approaching in the form of modern efforts to slow biological aging (Geroscience) – offering humanity a second chance at altering the course of human survival.

Q&A

Ailish Finnerty
Partner, Arthur Cox

Life settlement funds have long enjoyed a home in Ireland. Greg Winterton caught up with Ailish Finnerty, Partner at law firm Arthur Cox, to learn more about why, and whether the trend will persist.

GW: Ailish, let's start with the obvious. Why do so many life settlement funds call Ireland home?

AF: US life settlement portfolios represent a very attractive investment to US and non-US investors alike. In bringing investors together, a key focus of the asset manager will be to ensure the fund is located in a favourable jurisdiction that has a long established and well-respected legal regime in the investment fund area. In addition, the fund itself must be tax efficient, ideally with no withholding tax on payment of maturities from the US insurer to the fund, no material tax leakage at the level of the fund itself and no withholding taxes on payments of returns to the US and non-US investors.

Ireland is an obvious choice here. The Irish ICAV and Irish Section 110 company are long established and present a tried and tested solution to all the issues highlighted above.

GW: Your expertise is in corporate tax planning. Is there anything on your radar from a regulatory perspective that is coming up that might impact the life settlement market?

AF: We advise only on Irish legal and tax issues in establishing and maintaining Irish vehicles to hold life settlement portfolios. As such, we cannot comment on any regulatory issues in other jurisdictions (e.g. the US, where the policies are sourced). From an Irish perspective, changes of law in the tax arena are of relevance and, if the portfolio is held via an Irish ICAV (which is a vehicle regulated by the Central Bank of Ireland ("CBI"), any changes in the regulatory regime applicable to ICAVs are of interest also. The Section 110 company is mainly outside the regulatory framework of the CBI and therefore is less likely to be impacted by regulatory change.

In the tax space, the BEPS initiative (introduced in the EU via the Anti-Tax Avoidance Directives) introduced, among other things, anti-hybrid rules and interest limitation rules that impacted the tax treatment of Section 110 companies. In some cases, those tax changes mean that the structure is better housed in an ICAV (which is exempt from tax in Ireland in these circumstances) and we helped our clients migrate across from a Section 110 company to an ICAV in those cases.

From the perspective of the CBI, there was a period around 2020/2021 when life settlement funds were attracting more scrutiny in the approval process, as the CBI sought to understand the asset class and why they were seeing so much interest in Ireland for these structures. We worked with our clients to assist the CBI in answering questions raised and ultimately to get them comfortable and in the past couple of years, the CBI is back to its usual process of granting approval within 24 hours. Although fund regulation in Europe is a constantly developing area, we don't see anything on the horizon that would fundamentally change the way life settlement structures are regulated in Ireland.

GW: In mid-July 2022, the Central Bank of Ireland changed its pre-submission process for a Qualifying Investor AIF, which, for the life settlement industry, meant that applications could be fast-tracked. Almost two years on, has this had much of an impact on fund launches?

AF: Yes, the removal of the pre-submission process for life settlements and the return to the normal QIAIF filing process and timelines has certainly allowed institutional managers to launch their strategies in a very timely manner and has facilitated managers in more accurately timing the launch of their funds with the closure of portfolio acquisitions.

Continued on next page

GW: There has been anecdotal evidence to suggest that more life settlement asset managers are launching closed-ended funds, as opposed to open-ended ones. What are some of the tax implications that a manager and/or an investor should be conscious of here?

AF: Happily, being either closed-ended or open-ended does not impact the Irish tax treatment of the vehicle although it is noted that from a liquidity management perspective most managers find that closed ended structures are more suitable to this type of less liquid asset. Being closed-ended doesn't prevent distributions to shareholders on maturities but does protect the structure from liquidity pressures.

GW: A cynic would say that tax is the main driver of investment fund returns, not the strategy employed by the investment manager. What's your message to end investors that are considering allocating to life settlement funds in terms of the impact of tax?

AF: Make sure you are getting the right advice! Ensuring the life settlement portfolio is housed in a well-structured Irish vehicle that benefits from the Ireland/US tax treaty, you should be able to avoid any tax leakage in getting maturities out of the US, in the vehicle itself and in getting returns to investors. Clearly, local law advice where the investor is located will be critical also to optimise the status of the returns earned.

Conflicting Views in Calculation of Latest Continuous Mortality Investigation Model

Author:
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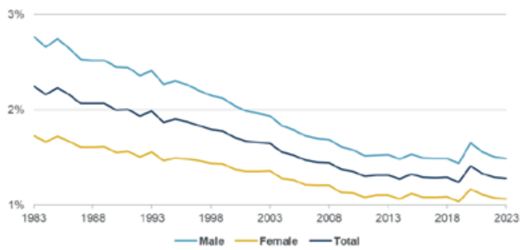
Life Risk News

The Institute and Faculty of Actuaries Continuous Mortality Investigation (CMI) published CMI_2023, its annual update to the CMI Mortality Projections Model in mid-April.

The bottom line is that projected life expectancies for those in England and Wales at age 65 are around five weeks lower for males and two weeks lower for females than they were in last year's update.

On the surface, that may appear to be negative news, but taking a step back shows that standardised mortality rates generally in the two countries remain close to those observed in 2019, the lowest point in the last 40 years.

Figure 1: Standardised mortality rates in England & Wales since 1983



Source: Institute and Faculty of Actuaries

> **"While recent mortality has been similar to the period immediately before the pandemic, the outlook for mortality remains uncertain. It is unclear whether there are just lingering short-term effects of the pandemic that will rapidly fade or whether the pandemic will have a fundamental impact on the longer-term mortality trend"**
> **- Cobus Daneel, CMI Mortality Projections Committee**

The biggest impact on mortality in recent years is, of course, the Covid-19 virus. As can be seen from the chart above, there was something of a spike in 2020 when the first wave swept through the population; despite the downward trajectory resuming, however, Cobus Daneel, Chair, CMI Mortality Projections Committee, says that the waters are still a tad muddy.

"While recent mortality has been similar to the period immediately before the pandemic, the outlook for mortality remains uncertain. It is unclear whether there are just lingering short-term effects of the pandemic that will rapidly fade or whether the pandemic will have a fundamental impact on the longer-term mortality trend," he says.

The extraordinary impact of Covid-19 on mortality led the CMI to exclude 2020 and 2021 data from the most recent model, something that, anecdotally, many market participants agreed with. What is notable in the latest press release, however, is the reference to something of a conflict between insurer and reinsurer actuaries and pension consultants and other actuaries with regards to the weighting of the 2022 and 2023 data in this latest projection.

The former wanted 10%, the latter 25% or more. A cynic would argue that the dispersion is so wide because each side is trying to influence the CMI to their own ends. Insurers and reinsurers benefit from a lower weighting because it enables them to charge more for pension risk transfer deals, whether they be a full buy-out, a buy-in or a longevity swap because a higher life expectancy means a higher premium will need to be paid by the risk cedant.

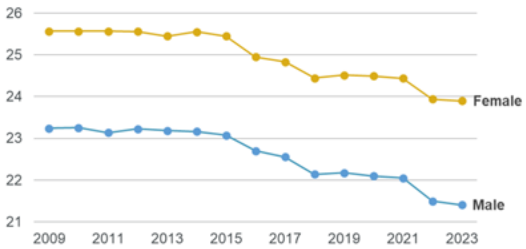
On the flip side, pension trustees and actuaries want a higher weighting applied to 2022 and 2023 data because a lower life expectancy means a lower premium, thus benefitting the plan sponsors.

Ultimately, both sides met in the middle, with the CMI allocating a 15% weighting to these years.

"Our chosen weight of 15% strikes a balance between these views and leads to a modest fall in life expectancies compared to CMI_2022," says Daneel.

The end result is that the figures for CMI_2023 are around 21 months lower than in the first version, CMI_2009, for the age 65 cohort.

Figure 2: Cohort life expectancies as at 1 January 2024 at age 65 from CMI_2023 and earlier versions



Source: Institute and Faculty of Actuaries

Life expectancy varies in terms of members of different pension schemes, and these differences are considered in the pricing of pension risk transfer deals; no two PRT deals are the same. Still, Roger Lawrence, Managing Director at consultants WL Consulting, says that the latest information coming out of the CMI shows just how uncertain mortality is at the moment.

> **"The main issue here is still the long-term impact of Covid-19 and whether mortality in 2020 and 2021 was a one-off blip or whether it will have a more prolonged effect. The difference of opinion between groups for 2022 and 2023 data shows just how uncertain the outlook is generally for mortality, and therefore the success of these PRT deals"**
> **- Roger Lawrence, WL Consulting**

"The main issue here is still the long-term impact of Covid-19 and whether mortality in 2020 and 2021 was a one-off blip or whether it will have a more prolonged effect. The difference of opinion between groups for 2022 and 2023 data shows just how uncertain the outlook is generally for mortality, and therefore the success of these PRT deals."

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