Life Risk News

Volume 3
Issue 11
November 2024

New Research Set to Have Significant Impact on Longevity and Mortality Markets

Life Risk News
ISSN 2753-7374
Volume 3, Issue 11
November 2024

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Editor's Letter, Volume 3, Issue 11, November 2024

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Life Risk News

The average life expectancy of a new-born human doubled from 32 years in 1900 to 71 years in 2021. *Implausibility Of Radical Life Extension In Humans In The Twenty-First Century*, a new article published in Nature Aging, says that the chance of a repeat in the 21st century is almost zero. *Greg Winterton* spoke to **S. Jay Olshansky** of **Lapetus Solutions,** one of the article's authors, and **David Blake**, Professor of Finance & Director of Pensions Institute at **Bayes Business School**, to get their thoughts on how this might affect our industry in *New Research Set to Have Significant Impact on Longevity and Mortality Markets*.

Data - either a lack of it, too much of it, or even the wrong kind - is providing the UK's pension risk transfer (PRT) market with something of a headache. *Samantha Downes* spoke to **Gareth Henty**, Head of Pensions at **PwC UK**, **Frankie Borrell**, Head of BPA Origination at insurer **Royal London**, **Scott Finnie**, Head of Digital Strategy at **Hymans Robertson** and **Julie Yates**, Director of Pensions Administration at **Cartwright** to learn why in *Getting Data Right Remains a Challenge in UK Pension Risk Transfer Market*.

In early November, the new UK government introduced the Tobacco and Vapes Bill, which phases out the sale of tobacco products across the UK to anyone aged 15 or younger this year. *Aaron Woolner* spoke to **Nicky Draper**, Longevity Consultant at **Crystalise**, to understand more about the potential impact on UK mortality of the ban in *UK Smoking Bill Likely to Deliver Only Modest Improvements to Future Life Expectancy*.

In recent years, the media frenzy around ESG has cooled and the movement has even received an element of backlash in some quarters. *Greg Winterton* held a roundtable call with **Sarah Nappi**, Associate at **NorthPeak Advisory**, **Johan Jonson**, Risk Manager at **Ress Capital** and **Dan Knipe**, Chief Investment Officer at **Kilter Finance** to get their views for the topic for *What is the Current State of the Relationship Between ESG and the Longevity and Mortality Markets?*

The reinsurance sector's capacity and innovative solutions have enabled life insurers to manage risk in the PRT space effectively, facilitating the transfer of pension liabilities to annuity providers but without this support and expertise, this level of market growth would have been unattainable. **Rupal Mepani**, Head of BPA Transactions and **Nicola Torley**, a Consultant at **Hymans Robertson** explain more in *Reinsurance Developments in the Bulk Purchase Annuity Market*, a guest article.

While aging is fundamentally a physiological phenomenon, numerous factors significantly influence the rate at which this process occurs. Certain factors can accelerate the aging process, while some have the potential to decelerate it, influencing the rate of physiological decline. **Dr Jyotsna Kamble**, Medical Underwriter at **CG Analysts**, gives her views in Slowing the *Biological Clock: How Lifestyle Choices Influence Aging*, our second guest article this month.

The underwriting process in the life settlement industry has changed in the past two decades, as the accumulation of more data, and the increasing accuracy of that data, along with a generally expanding mortality profile of humans, has seen life expectancies (LEs) extending. *Greg Winterton* spoke to **Dr Rahul Nawander**, Medical Director at **Fasano Underwriting**, to get his views on what is impacting LEs generally from a medical perspective in this month's *Q&A*.

Investors looking for access to Canadian secondary life markets have reverse mortgage securitisations and a secondary market for life insurance in Quebec, and not much else. But one concept could provide investors with a new way to access longevity risk. *Greg Winterton* spoke to **Daniel Kahan**, Founder at **LifePoint Foundation for People with Special Needs**, to learn more in *Few Options for Investors To Access Canadian Secondary Life Markets but a Novel Idea Has Potential*.

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

New Research Set to Have Significant Impact on Longevity and Mortality Markets

Author:
Greg Winterton
Contributing Editor
Life Risk News

The average life expectancy of a newborn human in 1900 was 32 years, and according to Our World in Data, by 2021, that more than doubled, to 71 years.

So, what are the chances then that the next 100 years or so brings about a similar jump?

Pretty much zero, according to *Implausibility Of Radical Life Extension In Humans In The Twenty-First Century*, a new article published in Nature Aging from longevity experts S. Jay Olshansky, Bradley J. Wilcox, Lloyd Demetrius and Hiram Beltran-Sanchez.

The quartet's research used demographic survivorship metrics from national vital statistics in Australia, France, Hong Kong, Italy, Japan, South Korea, Spain, Sweden, Switzerland and the US from 1990 to 2019 and found that improvements in life expectancy had slowed down since 1990, ultimately concluding that under the best of conditions, only about 15% of females and 5% of males could survive to 100 years of age in the 21st century.

The impact of the findings will be felt across health systems, urban planning and retirement planning the world over, and certainly, for companies in the longevity and morality markets, as well; but for Olshansky, the cat has been out of the bag for a long time.

"We made this prediction - that life expectancy had to slow down – in 1990. It's not about curing this and that and AI – unless it influences aging, it's not going to work. Aging is currently immutable"
- S. Jay Olshansky, Lapetus Solutions

"We made this prediction - that life expectancy had to slow down – in 1990. It's not about curing this and that and AI – unless it influences aging, it's not going to work. Aging is currently immutable."

Longevity risk is prevalent in many industries, ranging from the niche, such as life ILS and life settlements, to the broader, such as reverse mortgages and defined benefit pensions.

In life settlements and reverse mortgages in particular, the findings of the research may be felt less keenly.

"Life settlement fund managers are obviously concerned about right tail risk, and rightly so. That still exists at the individual level - after all, those who are most likely to make it to 100 are those in their late 90s, so a life settlement fund with these policies still has this risk," said Olshansky.

"And there's also a legitimate concern about right tail risk in the Hong Kong reverse mortgage market. 12-13% of Hong Kong females already live to 100 – that's way higher than anywhere else in the world. Reverse mortgage providers can be exposed here," he added.

But at the life insurance and population levels, the impact could be profound.

It is generally accepted that life insurers do account for potential improvements in mortality in their actuarial models, but if they have been taking too conservative an approach, then making adjustments could mean that life insurance becomes more accessible to the broader population.

In the US, for example, industry group Life Insurance Marketing and Research Association (LIMRA) and Life Happens publish *The Insurance Barometer*, an annual study that tracks the perceptions, attitudes, and behaviours of adult consumers in the United States, with a particular focus on life insurance. This year's edition reports that while around half of Americans have life insurance, 42% say they need more and the main reason given for not purchasing life insurance is that it's too expensive.

Will this new research mean that life insurers can revisit their mortality modelling effort to identify where they might have been too conservative on risk – and perhaps, bring down pricing?

"I'm guessing that's exactly what's going to happen. It's obviously more nuanced than that – they will need to do a little more homework to make sure the dynamics apply directly to the populations they are underwriting, as there will be variations. But I do think that many of them will look at their existing pricing and modelling assumptions because they are probably going to be wrong, and the longer the forecasts go to the future, the more wrong they will be," said Olshansky.

It's a similar situation in the pension risk transfer (PRT) market. These deals can involve thousands of retirees: Just recently, RAC secured a deal with Aviva to insure the pension liabilities of approximately 19,000 people. General population mortality data is also applicable to this industry, and according to David Blake, Professor of Finance & Director of Pensions Institute at Bayes Business School, getting this right is no easy task.

"Getting the trend increase in life expectancy right is the key job of the pricing actuaries appointed by life insurers. If they underestimate the trend, then their pricing will be too low, and this will eventually eat into reserves. If they do the opposite, they will be overpricing. It is a fine line," he said.

If the models are indeed overcompensating for increasing life expectancy, however, the likelihood that there would be any kind of pause in bulk purchase annuity transaction activity whilst insurers review and tweak their pricing is low.

> **"Pricing changes every day in the light of new information. If the new information points to a significant slowdown or even a flattening of the trend, then prices will respond immediately"**
> **- David Blake, Bayes Business School**

"Pricing changes every day in the light of new information. If the new information points to a significant slowdown or even a flattening of the trend, then prices will respond immediately. Each insurer will look at what its competitors are doing to confirm that it has made the right decision - the prices won't jump, they will change slowly. But there will be no pause in PRT activity," said Blake.

Only time will tell in terms of whether life insurers around the world adjust their pricing, whether that be for life insurance policies, pension risk transfer deals or annuities. After all, life expectancy is not the only determinant of price. But according to Olshansky, they have begun to take action.

"We're already seeing actuaries at insurers scrambling in terms of how to adjust their approach to future mortality," he said.

"Because if insurers have been building in a 1-2% mortality improvement each year into their models, they have been mispricing their book for the last three decades."

Getting Data Right Remains a Challenge in UK Pension Risk Transfer Market

Author:
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Life Risk News

Data is everything and everywhere, from generative artificial intelligence (AI) to supermarket loyalty cards.

So, it is inevitable that data - either a lack of it, too much of it or even the wrong kind - is proving a challenge to the UK's pension risk transfer (PRT) market.

The latest *Pensions Funding Survey* from PwC, published at the end of October this year, highlighted growing concerns over data quality. A quarter of the trustees and managers, jointly responsible for £200bn of defined benefit (DB) pension scheme assets, said their number one concern was data preparation and third-party administrator capacity.

PwC says that the industry has worked on a 'just in time' basis, meaning data was often not checked until just before a member retired, and Gareth Henty, Head of Pensions at PwC UK, said the current climate meant this approach was no longer appropriate.

"The pensions industry is facing issues with schemes having their data ready for buy-out or risk transfer, along with getting data and systems ready for the introduction of pensions dashboards and completing Guaranteed Minimum Pension equalisation (GMPe) exercises"
- Gareth Henty, PwC

"The pensions industry is facing issues with schemes having their data ready for buy-out or risk transfer, along with getting data and systems ready for the introduction of pensions dashboards and completing Guaranteed Minimum Pension equalisation (GMPe) exercises," he said.

Frankie Borrell, Head of BPA Origination at insurer Royal London, admitted data was proving a challenge to many of the 5,000 defined benefit UK pension schemes, plenty of whom have historically managed with member data that came with "varying degrees of inconsistencies and gaps".

"Buy-out providers need a certain standard of data to meet their requirements, both in terms of accurately pricing the insurance risk and being able to go on to administer those policies for decades into the future," he said.

"Over the past two years we've seen a much higher interest in buy-out policies from pension scheme trustees which in turn has led to a much greater strain on administrators preparing for 'insurer ready' member data. This strain has been compounded by various other member data initiatives, not least the need for the vast majority of these pension schemes to now implement GMP equalisation following the Lloyds judgement."

The Pensions Regulator (TPR) is pragmatic about scheme data readiness but is insistent all schemes review their data at least once a year and put an immediate improvement plan in place to address any issues.

The TPR also highlights the key role of scheme administrators, which it states: "should be able to help you design an improvement plan or assess the one you currently have in place".

"Having accurate and timely administration is the bedrock for any strategy that trustees and employers want to pursue," Henty said.

"In addition, as trustees and sponsors will, for the first time have to document their long-term objective in a Statement of Strategy, and as part of this due consideration should also be given to a scheme's data strategy and the resource and capability needed to execute this over the period until the long-term funding objective is reached."

Hymans Robertson's paper *Why data is the queen in a scheme's end game* was published in October and offered a five-stage approach to schemes wanting to ensure their data is fit for purpose.

"Every DB pension scheme will have its own journey but taking a holistic approach to data improvement and working towards an 'accurate all the time' data set will benefit the scheme's progression towards their chosen endgame," said Hymans Robertson Head of Digital Strategy, Scott Finnie.

"This will allow for a smoother transition and increased flexibility as all end game options can be explored with the knowledge that the data is accurate and correct."

Hymans' approach starts with a clear definition of the link between data and benefits. Stage two involves auditing and reviewing the data at regular intervals while the third stage is a data improvement plan; stage four is about executing the plan and providing regular updates to stakeholders and stage five means maintaining ongoing monitoring and seeing data as a "key integral part of a scheme rather than a one-off exercise".

"Every DB pension scheme will have its own journey but taking a holistic approach to data improvement and working towards an 'accurate all the time' data set will benefit the scheme's progression towards their chosen endgame"
- Scott Finnie, Hymans Robertson

"Having correct data benefits DB schemes in several important ways," Finnie added.

"It cuts administrative processes, reduces risk and enhances the member experience – all of which are invaluable to the smoothness of a scheme's endgame journey. Investing in a considered, holistic data improvement plan will make the scheme more attractive to the market – as well as offering reduced risk, dashboard compliance, and improved member experience along the way."

Julie Yates, Director of Pensions Administration at actuarial consultancy Cartwright said it was seeing several different logjams around data. For example, the documented benefit specification document could sometimes raise more questions than answers.

"Trustees need to check that the benefits being agreed with insurers actually agree with what the scheme rules set out," she said.

"This could result in a review of scheme trust deed and rules and any deeds of amendment and carry out a benefit audit. Any mistakes need to be sorted out before going to market, as trustees won't want to run the risk of securing the wrong benefits, and incurring ongoing liability after wind-up, because of poor data."

Yates recommends 'pre-work' to establish gaps in data.

"The need for clean data goes far beyond the regulator's current guidance and potentially even the ongoing administration records. Each insurer requires their own templates to be used and having an effective and open relationship with them, to ensure data is of a high quality and provided in a timely manner is essential."

Yates said projects to validate such items as member's marital status, dependants and addresses ensured there were no hidden surprises as part of any top-up premium that would be payable as a buy-out is completed.

"Starting the process with poor or incomplete data simply puts more risk on the table which could result in a large and an unexpected bill for the sponsor," she said.

GMPe projects were also proving a challenge; trustees should be aware that GMPe projects are ideally completed before going to buy-in.

"GMPe work undertaken during the buy-in stage could delay schemes completing the transaction within the desired timeframe and what is required to complete these projects successfully," said Yates.

A review of the required data that must be in place in order to perform accurate calculations needs to be undertaken as early as possible, she said. Schemes must also weigh up the cost of undertaking a GMPe data cleanse and completion of the GMPe project with the benefits of a smoother transaction and potentially a lower than otherwise insurance premium.

"Insurers, rightly, want data in their own templates and this can involve re-trancing of pension benefits. Preparation and understanding the requirements in advance will remove any last-minute obstacles to transact and will ensure the ongoing administration from buy-in to buy-out works smoothly," said Yates.

"Neither the current administrator nor the insurer wish to start off on a bad footing, where data is not up to requirements."

Getting their data ducks in a row is a scheme ideal, but insurers are realistic about the challenges the industry faces.

"As a newer entrant to this market, one of the key triage factors for us participating in a quote process is the quality of member data," said Borrell.

"Whilst we don't expect perfect data pre-transaction, we always seek to work with trustees and advisers that have taken the time to properly prepare their data so our pricing and onboarding processes will run smoothly."

UK Smoking Bill Likely to Deliver Only Modest Improvements to Future Life Expectancy

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Life Risk News

Smoking rates in the UK have been falling since records were first taken in 1974, having previously reached levels of over 80% of men in the late 1940s, according to anti-smoking lobby group, Ash, which now estimates around 13% of the country's population uses nicotine.

The UK's new Labour government is aiming to drive these numbers down even further and on 5th November it introduced the Tobacco and Vapes Bill which, if put onto the statute book, will mean that children aged 15 in 2024 will never legally be able to purchase tobacco products.

The UK isn't the first country to attempt to raise a 'smoke free' generation. New Zealand's parliament passed pioneering legislation in 2022 which would have stopped anyone born after 2009 from buying cigarettes. However, this was repealed after the election of a coalition government in 2023.

The chances of the UK successfully - partially - banning smoking appears much higher. The Labour government won the biggest majority in the country's modern history with its July election victory and the smoking ban itself was first proposed by the previous Conservative government.

The UK's smoking death numbers are currently trending downwards with the country's state health service reporting 74,600 deaths attributable to smoking in 2019, a 3% fall compared with 2018 and a 9% decline relative to 2009.

> **"The incremental smoking ban is public health policy at its best because the people who enact these measures are unlikely to witness the full extent of the changes it brings"**
> **- Nicky Draper, Crystallise**

However, Nicky Draper, Longevity Consultant at Crystallise, says that given the long timelines involved with nicotine-linked diseases, it will be some time before the proposed legislation has a material impact on smoking deaths.

"The incremental smoking ban, which increases the age it's possible to buy tobacco by a year every 12 months, is public health policy at its best because the people who enact these measures are unlikely to witness the full extent of the changes it brings," she said.

"This is chiefly because of the long time-lag between smoking behaviour and ill-health effects. Even for lung cancer, it's probably 20 years before symptoms come along, and it's the same for cardiovascular diseases."

The current timelines for the partial smoking ban envisage current 15-year-olds being barred from buying nicotine in 2027. This means that even with the UK's current state retirement age of 66, it will be 2079 before the first cohort to be affected by the ban reaches pensioner status.

"Because of the Tobacco and Vapes Bill's incremental nature, what we will see is a modest impact on mortality in 20 to 30 years from now. But that effect will start to grow, and the aim is to ultimately produce a smoke free generation over the long term," Draper said.

The gradual approach towards phasing out nicotine contrasts markedly with the prohibition approach which has typically been applied to reducing drug consumption, so why not go straight ahead with an outright ban?

Draper says the problem lies with the sheer addictiveness of nicotine; the US Surgeon General warned in 1988 that nicotine was as addictive as the universally proscribed drugs cocaine and heroin.

Because of the strong withdrawal effects from nicotine, numerous studies have shown that smoking cessation attempts, which are supported by nicotine replacement therapy, have much better success rates than simply stopping cold.

"Quitting smoking is difficult, but by and large, evidence tells us that those who have the support of a structured smoking cessation program, such the one which is offered through the NHS, are the most successful," Draper says.

Draper adds that it is simply not possible to provide sufficient support to the UK's estimated six million smokers if nicotine was simply banned at a stroke.

The problems with providing support to all UK smokers in a wholesale nicotine ban scenario is exacerbated by the wide disparity in smoking rates between different socioeconomic groups. While the UK's headline smoking rate of just under 13% is much lower than similar sized neighbouring countries Germany (21.5%), and France (34.6%), this masks a broad differential between social groups.

> **"It's also important to remember the potential knock-on effects. Smoking costs the NHS billions of pounds a year, and significantly reducing the amount of resources that go into managing smoking-related illnesses can then be deployed elsewhere"**
> **- Nicky Draper, Crystallise**

The UK's Office of National Statistics' Index of Multiple Deprivation classifies populations into ten subgroups. According to the 2021 UK Census data, roughly one-third (33.1%) of English smokers lived in the two most deprived deciles. In contrast, the least deprived neighbourhoods recorded smoking rates of just 6.8%.

"So how do you support everybody if you suddenly ban smoking? And is there a potential for a ban of this type to turn into an underground situation where people are then accessing black market cigarettes because the support to quit isn't there?" said Draper.

The UK government also announced that disposable vapes will be banned from 1st June 2025 under separate environmental legislation. The ban follows concerns over a marked increase in vaping among young adults who had not previously smoked.

The move to ban disposable vapes means that more than half of countries now have some form of e-cigarette restrictions in place – 33 have banned vapes sale outright, while another 87 have some form of restriction in place.

While the move to outlaw disposable vapes has its genesis in environmental concerns, there is evidence to suggest that vaping is a gateway to nicotine addiction, that bypasses cigarette use, so a crackdown could have an impact here as well. But this two-pronged approach to reducing smoking is, according to Draper, a long game here, and while there is unlikely to be an impact on mortality data in the short to medium-term, there could be additional benefits down the line.

"As I say, there will be only a modest impact on mortality in the UK, and it won't be for another 20 to 30 years until we see that impact," said Draper.

"But there will still be an impact, and it's also important to remember the potential knock-on effects. Smoking costs the NHS billions of pounds a year, and significantly reducing the amount of resources that go into managing smoking-related illnesses can then be deployed elsewhere."

Roundtable
What is the Current State of the Relationship Between ESG and the Longevity and Mortality Markets?

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The environmental, social and governance investing movement was, for years, akin to a juggernaut relentlessly ploughing its way through all sub-categories of the asset and investment management industry. But in recent years, the media frenzy around ESG has cooled and the movement has even received some level of backlash in some quarters. Greg Winterton spoke to Johan Jonson, Risk Manager at Ress Capital, Dan Knipe, Chief Investment Officer at Kilter Finance and Sarah Nappi, Associate at NorthPeak Advisory, to get their views on the current state of the relationship between ESG and the longevity/mortality markets.

GW: Life insurance companies, the main counterparty in the life settlement and life ILS markets, arguably support an ESG mandate well; they provide a societal benefit, they have a lower carbon footprint, and an exceptionally strong governance profile, especially in Europe and the UK. Do end investors understand this? To what extent do they drill down on counterparties for due diligence?

SN: Investor sophistication in ESG awareness and understanding varies widely. While many investors include ESG considerations in their due diligence questionnaires (DDQs) to some degree, a common issue is a narrow focus on high-profile topics, like climate change, that dominate public discourse.

At the more sophisticated end, some investors grasp the broader social benefits of ESG integration in areas like life insurance. These investors tend to prioritise rigorous due diligence on counterparties, which necessitates visibility and access to these entities. However, there remains an education gap for investors with a less advanced approach to ESG. This often results in a standardised approach to ESG questions, centred around well-known issues such as climate change, rather than tailoring inquiries to align with specific investment strategies and objectives.

JJ: We find that investors are often positively surprised when we present our ESG framework – we definitely see a variety of knowledge. The DDQs can be fragmented, and they vary significantly in terms of how deep they drill down. But most of the time investors are not considering the positive aspects of insurance companies. Those that do focus more on the governance side of things and not the environmental side of things.

That said, the investor landscape is changing quite a bit. Previously we saw them looking at ESG as a silo exercise, with the ESG committee sitting in different part of the organisation. But in newer wealth managers for example, it's much more fully integrated. They want to understand fully what you're doing and how you're integrating ESG because the clients they manage want to better understand how their money is being used and whether it aligns with their core values.

DK: I think they do. In our experience investors appreciate the underlying foundation of strong governance in the insurance sector. They know that there are multiple layers of governance embedded within the sector - there is strong regulatory oversight, there are rating agencies involved, senior managers are subject to fitness and probity requirements, boards of directors need to have the high levels of appropriate experience, and within the businesses there is a firm separation of roles between risk management and front-office origination and underwriting. I'd agree that investors are less clear on the E and the S legs of the ESG stool as they apply to insurance, although we spend a lot of time talking to investors about the social benefits of insurance, of which there are many, and they get that quite quickly. It can be more difficult to well articulate how insurers, in general, are addressing the E leg, however.

GW: There is an oft-discussed trade-off in ESG in that a capital allocator must accept some kind of discount on returns if they want ESG-related benefits. That is not true in life settlement and life ILS – the ESG is intrinsically baked in. Do they understand this is not a zero-sum game in the life markets?

JJ: To some extent. We certainly don't see a negative trade off – for us, ESG just adds value to the way we think about risk and how we run our strategy. But within life settlements I do think there is a slightly different focus - ESG is not the top focus. It's important, but in the sourcing of transactions and purchasing of policies, there are other risks that we look at which, if well managed, will help us to deliver good returns.

DK: There's probably not as much awareness of the fact ESG is inherently a core part of insurance investing. I think that as an industry we have to do more to message that the S and G aspect of ESG are baked in to an investment in insurance. We need to help investors realise that the value of the S and of the G within our industry can be as high as the more measurable E impact in others. When you look at the unit economics of insurance, the underlying product provides a social good – it helps people lead better, less volatile lives by smoothing the financial journey. By mutualising financial risks that individual policyholders face but are unable to bear alone it provides for a society where health, safety and peace of mind can lead to stronger and more equal communities. We probably don't do enough to stress to investors that this social-good is the reason that insurance exists in the first place.

SN: This is still something we're hearing but it's about communicating what it means – it's about the value add, and not the trade-off. It's about directly communicating where the strengths of a particular investment are as it relates to ESG, and it's not about being everything to everyone. Managers need to create value in their own category, and manage ESG risk in a better way, and help investors to understand that.

GW: If an investor is choosing between a life risk-type fund delivering 12% returns and, say, a direct lender delivering 16%, when would they select the life risk fund? How are they screening and how can life risk managers make their case in this situation?

DK: Most investors will be trying to maximise returns, investing in well governed companies, while doing societal good and reducing environmental harm. However, it's more nuanced than your example. For a lot of investors, some level of compliance with their ESG policy is necessary to make an investment but it's definitely not sufficient. They're going to be looking at the volatility of both products and the underlying risk exposures. If one of the options is a better diversifier, then many investors could accept a lower return for that, for example. They're thinking about how they can make the returns in the most socially and environmentally friendly way they can. While many investors would not invest with a manager if they don't take ESG seriously, they wouldn't necessarily invest with one just because they are.

SN: It is the lack of quantitative data that hinders the S and the G. On the environmental side, greenhouse gas emissions is just one example of something that an investor can hone in on. If you can't quantify it then you have to transparently communicate a narrative about the value add of the investment. But that's definitely more difficult because numbers are a compelling part of the narrative. It's about trying to find ways of articulating the positive impact without the data to support that.

JJ: It's a challenge. We have a specific case where we have avoided governance-related risks – we focus on governance and credit risk as part of our due diligence process so yes, this is an example of where something ESG-related has paid off in terms of limiting the downside risk here. It's difficult to quantify it but it's still a case study where something happened, and we weren't exposed to the subsequent risk. It's becoming more of a hygiene factor for managers to have a sound ESG framework in place to avoid taking unwanted risk and to contribute to long term sustainable financial industry. Some investors are looking for the narrative of how ESG is adding value but that's nothing we come across very often.

GW: Given that governance would seem to be the main leg of the ESG stool where the life markets can make their ESG pitch, what is the best way to do that? How much of the work rests on the trade associations in the space, versus the individual managers?

SN: It's a question of transparency. Managers need to be thinking about transparency in terms of their communications with investors and in terms of their due diligence in their investment strategy and again, communicating that clearly. It needs to be made a standard part of the conversation, and I do think that it does come down to what are the individual managers, and their peers are doing and seen to be doing.

JJ: The governance side of things is also about not taking unwanted risks that we are not being compensated for – it's not only the structure of the market and consumer protections. One doesn't exclude the other and we need to be careful that we are not only pushing the governance conversation in one direction.

DK: If you separate ESG into the three separate categories, then the insurance industry, the private equity industry, ILS funds, lenders, board of directors, trade bodies, everyone should be making the case that there is a societal benefit from insurance and a strong governance framework. It's not incumbent only one group or firm to drive this and as I said, we need to push the S as much as the G.

But what would really help is if the government would get involved. We already have an example of this in Florida, where there is a government backstop to provide home insurance for people who can't get it in the market. I'm not saying this is the answer in other places, but in Florida, the insurance industry is talked about as having good governance. But in the UK and other states of the US and other countries, insurance doesn't get any airtime, probably because it's viewed as boring. If governments were to push the benefits of insurance, then I think that would have a big impact in terms of general investor awareness, and therefore, interest.

GW: Lastly - is there a silver bullet – or maybe more realistically, low hanging fruit – that life risk asset managers can take advantage of to better position themselves as an ally to the ESG movement? Or do these markets have too much of an awareness problem already that they need to tackle without the need to complicate things with the ESG conversation?

JJ: In life settlements, we need to continue to increase the level of awareness of the asset class and help get rid of the misconceptions that some investors have about the market. There is still a huge misconception that this is unethical despite there being a very positive outcome for the consumer. We're not starting from level ground here – we need to 'get out of the basement' so to speak and onto the level ground before many investors can think about the positive ESG aspects of our asset class. That said, we are going in the right direction – there is more in the media now that is supporting this topic. It's just a case of continuing to do it.

DK: It's tough. You mention awareness – for me, it goes back to insurance as being boring. If you need to make a claim, you want them to be there, but normally, people don't want to hear from them. Elevating this in people's minds is too big of a task for the asset management industry to do on its own. I think it's a case of each individual asset manager educating their investor base as to why insurance makes a good investment and excellent risk adjusted returns while meeting the necessary condition of being ESG compliant.

SN: I'm not sure there is. You have to understand where the ESG conversation is focused right now, which currently is on environmental factors. Climate change is the number one ESG-related issue for investors, followed by biodiversity. These subjects are easier for investors to wrap their brains around and they are more digestible. Social factors are so broad, but human rights and supply chains are the main consideration here. Life markets are navigating topics where investor focus often appears less directly relevant to life insurance products. Asset managers and other stakeholders in this space should therefore persist and expand their efforts to educate investors on the unique ESG considerations within life insurance.

Life ILS Conference 2025

TUESDAY 20TH MAY 2025

LONDON, UK

Life Risk News

Reinsurance Developments in the Bulk Purchase Annuity Market

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"The reinsurance sector's capacity and innovative solutions have enabled insurers to manage risk effectively, facilitating the transfer of pension liabilities to annuity providers. Without the support and expertise of reinsurers, this level of market growth would have been unattainable"

The Bulk Purchase Annuity (BPA) market has experienced remarkable expansion over the past few years, reaching a historic milestone with nearly £50 billion in volumes recorded in 2023. This surge in activity can be attributed to several key stakeholders, including reinsurers who play a pivotal role in shaping the market's trajectory.

The reinsurance sector's capacity and innovative solutions have enabled insurers to manage risk effectively, facilitating the transfer of pension liabilities to annuity providers. Without the support and expertise of reinsurers, this level of market growth would have been unattainable.

In this article we discuss why reinsurance is an important tool for insurers, recent reinsurance usage trends observed in the BPA market, and what the future looks like.

Common uses of reinsurance

The different risk exposures and risk appetites of insurance companies mean that reinsurance is used in a number of ways. As there isn't a 'one size fits all' offering, we begin with some common examples of how reinsurance is used in the BPA market and why it is important to insurers in this current environment.

Flow reinsurance – small scheme treaties

Flow reinsurance uses pre-arranged treaties which enable the insurer to transfer longevity risk on a quota share of new business quickly and efficiently and provides insurers with price certainty. With the increased focus at the smaller end of the market, more and more insurers are making use of flow treaties. Whether that's putting new arrangements in place or by renegotiating terms of their existing treaties to increase individual deal limits and/or total volumes that the insurer can write. Many insurers have made it clear that they do want to support the smaller pension schemes in the market. They are doing this by streamlining their pricing process allowing them to reallocate/optimise resources to unleash the value that comes with small schemes. Flow reinsurance treaties fit well to support this goal.

Facultative longevity reinsurance

As we all know, 2023 was the year of the larger transactions, with c.60% of transaction volumes coming from deals over £1bn. Facultative longevity reinsurance is what has commonly been used for these transactions. This type of reinsurance is tailored to meet the characteristics of a particular transaction, with terms negotiated for each transaction. The pricing in the market is increasingly competitive reflecting the appetite on both demand and supply side for this type of reinsurance. However, it's worth remembering that bespoke pricing and terms usually take longer to negotiate and are therefore more resource intensive. As such, this continues to bring competing challenges for reinsurers around which transactions to provide pricing for and how best to maximise their resources.

Funded reinsurance

Unlike the previous examples, funded reinsurance covers asset risk as well as longevity risk transfer. Funded reinsurance has increased in popularity over the years with insurers now using it as a tool for scaling up capital, optimising capital, and taking advantage of opportunistic pricing. Funded reinsurers are commonly based outside of the Solvency UK jurisdiction (e.g., in Bermuda and the US), allowing them more investment freedom than that of UK insurers.

"Funded reinsurance does come with more inherent risk than longevity reinsurance. This is because the full asset risk is passed across to the reinsurer at the outset. If the reinsurer does fail, there could be a sizeable loss for the insurer. This is where recapture plans become increasingly important to ensure this risk is managed"

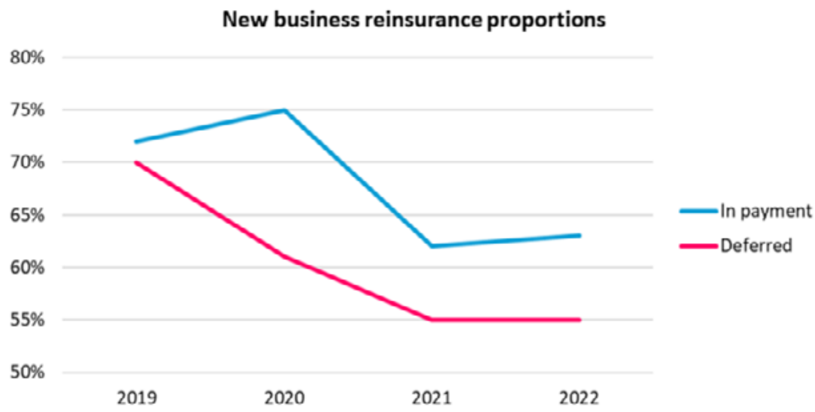
Funded reinsurance does come with more inherent risk than longevity reinsurance. This is because the full asset risk is passed across to the reinsurer at the outset. If the reinsurer does fail, there could be a sizeable loss for the insurer. This is where recapture plans become increasingly important to ensure this risk is managed.

These examples cover the common types of reinsurance used in the BPA market at the moment and they give an idea of how reinsurance can meet a variety of needs. Each insurer will be responsible for assessing both the benefits and risks of each type before putting these types of arrangements in place.

Recent trends in longevity reinsurance

Volumes of reinsurance usage continue to change in response to developments in the market. The chart below illustrates how new business reinsurance proportions have changed for BPA insurers since 2019. The information comes from our annual Matching Adjustment survey and reflects longevity reinsurance only (excludes funded reinsurance). We note that, although the participants and number of respondents to the survey have changed over the years, and some participants may seek reinsurance after a transaction (skewing the results), it provides a useful 'at a glance' picture.

We can see that, for both in-payment and deferred blocks of business, there has generally been a downward trend in the proportion of new business reinsured. Given that demand for longevity and asset reinsurance continues to be met, this reduction is purely the proportion of new business reinsured and not necessarily the volumes reinsured. One contributor to this reduction might be the increased use of funded reinsurance, which also captures longevity risk but is not reflected in the chart below. From speaking to some insurers and reinsurers in the market, we estimate that around 20% to 30% of volumes written in 2023 used funded reinsurance.



The future of reinsurance

We expect to see the following themes continue or arise going forward.

- New entrant interest due to high demand: We anticipate that high demand for both longevity only and funded reinsurance from UK insurers will continue. This demand has led to more and more interest from new entrants, and we are helping a number of these reinsurers as they enter the market.
- Persisting resourcing challenges alongside a search for efficiency gains: Reinsurers face human capacity constraints which could trigger focus on larger blocks of business or increased size limits on flow treaties.
- Risk margin reform: The reduction in the risk margin came into force at the end of 2023. This has reduced the capital requirements insurers are required to hold in respect of longevity risk. It remains to be seen whether

insurers' risk appetites or capacity for longevity reinsurance will be materially influenced by this regulatory change, or whether reinsurance pricing will continue to be too good to ignore. This is something we will be monitoring.

- PRA focus: The PRA is concerned about the scale of demand for bulk annuities, and whether competitive pressures could create an environment where insurers build up systematic risk exposures through the use of funded reinsurance to counterparties whose risks may correlate with other market risks. They also have a focus on risk exposures to credit heavy reinsurers and the associated counterparty default risk. Both of these elements could reduce the appetite for funded reinsurance, although we have not yet seen this in practice.
- Increased appeal for international market: The international pension risk transfer (PRT) market is a growing area of focus for reinsurers, and we have seen a number of very large reinsurance transactions in the US, Netherlands, and Asia. There is a question as to whether the opportunities in the international markets continue and take away from the already limited resource dedicated to the UK PRT market.

Conclusion

Reinsurance has many uses in the UK PRT market, with capacity and innovations helping the market to grow and thrive in recent years. The data suggests that use of longevity reinsurance by insurers has reduced since 2019. There are a number of factors, such as continued demand for funded reinsurance, competitive pricing, increased appeal from new entrants, and regulatory changes, which may determine whether this trend will continue.

Any views expressed in this article are those of the author(s) and may not necessarily represent those of Life Risk News or its publisher, the European Life Settlement Association

Slowing the Biological Clock: How Lifestyle Choices Influence Aging

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> "Globally, life expectancy is increasing, with a majority of individuals now anticipated to live into their sixties and beyond. This trend is evident across all countries, where both the size and proportion of the elderly population are rising"

Aging can be described as the progressive physiological changes in an organism that leads to senescence (the process of growing old).[1] It is characterized by a decline in biological functions and a reduced ability to adapt to metabolic stress. The description highlights aging as a process involving continuous physiological alterations occurring at the cellular and organ levels, resulting in decreased functionality. The process of aging gradually diminishes an individual's physical and mental capacities.

While aging is fundamentally a physiological phenomenon, numerous factors significantly influence the rate at which this process occurs. Certain factors can accelerate the aging process, while some have the potential to decelerate it, influencing the rate of physiological decline.

Healthy aging is defined as the process of developing and maintaining the functional ability that enables well-being in older age. Functional ability encompasses the capacities that allow individuals to be and do what they value, which include meeting basic needs, learning, growing, and making decisions, being mobile, building and maintaining relationships and contributing to society.[2]

Globally, life expectancy is increasing, with a majority of individuals now anticipated to live into their sixties and beyond. This trend is evident across all countries, where both the size and proportion of the elderly population are rising. According to the 2020 American Census, about 1 in 6 people were aged 65 and over. In 1920, this proportion was less than 1 in 20.

An extended lifespan presents opportunities not only for older individuals and their families but also for society as a whole. These additional years can facilitate engagement in new pursuits such as education, career development, and the exploration of life experiences. However, the fulfilment of these opportunities is fundamentally dependent on health.[3]

This article explores some of the factors which could potentially slow down the ageing process and extend life expectancy.

Blue Zones

Blue Zones are geographic regions with lower rates of chronic disease and longer life expectancies. There are several common elements which contribute to longevity in these regions, and they include the following:

- Nutrition
- Physical activity
- Avoidance of risky substances
- Stress management
- Restorative Sleep
- Social connections
- Purpose in life
- Belonging

Environmental respect

Blue Zones are often coupled with a higher quality of life. However, this scenario is not universal.[4]

We will further examine evidence-based insights on how the characteristics

> "Engaging in physical activity, even below recommended levels, reduces mortality risk compared to no activity. Inactive individuals, especially those with obesity, showed markedly reduced life expectancy"

of Blue Zones contribute to improved health outcomes and the promotion of a meaningful, well-rounded life.

Exercise

Various forms of exercise are essential, not only for maintaining and promoting health but also for contributing to longevity. Numerous research studies support this assertion. Below, we discuss some of the benefits of exercise.

A self-reported dataset on leisure-time physical activities from approximately 650,000 individuals in Sweden and the US was analyzed to assess the impact of physical activity on life expectancy. Brisk walking for up to 75 minutes per week was associated with a 1.8-year increase in life expectancy compared to no activity. Increasing this activity to 150 minutes per week correlated with a gain of 3.4-3.5 years. Active individuals with normal weight had a life expectancy increase of 7.2 years compared to inactive individuals with class II obesity (BMI > 35). However, inactive individuals with normal weight had a 3.1 year shorter life expectancy compared to those with class I obesity (BMI 30-30.9) who were active.

These findings suggest that engaging in physical activity, even below recommended levels, reduces mortality risk compared to no activity. Inactive individuals, especially those with obesity, showed markedly reduced life expectancy, highlighting the potential health benefits of modest physical activity programs, even if there is no weight loss.[5]

Numerous studies show that specific exercises not only prevent or control disease progression but slow down the aging processes. For example, resistance training increases muscle strength, metabolic rate, bone density, and reduces body fat, fall risk, and joint pain. It also improves lipid profiles, endothelial function, and overall well-being by stimulating muscle hypertrophy and neuromuscular control.[6]

Regular exercise also improves cognitive abilities and reduces the risk of Alzheimer's disease and mild cognitive impairments. It also enhances mental health by improving self-esteem, sleep, mood, and reducing symptoms of depression and anxiety.[7]

Yoga

Harvard University states that yoga began, not as a form of physical exercise, but as a practice to achieve spiritual enlightenment and mental discipline.[8] Yoga is an ancient practice with roots spanning millennia and has gained widespread popularity in modern times due to its holistic approach, integrating mind and body. It encompasses breathing exercises, physical postures, meditation, and other techniques aimed at promoting both physical and mental well-being. Historically, yoga has been valued not only for its physical health benefits but also for its positive impact on mental health. Recent research supports the significant effects of yoga on both the mind and body, suggesting that it may positively influence cellular and molecular processes that are hallmarks of aging.

For the cardiovascular system, yoga is effective for lowering blood pressure in middle-aged and older adults, with or without hypertension. It is also effective in metabolic profiles, for example haemoglobin HBA1C, improvements in lipids and body composition.

General physical conditioning through yoga poses can help strengthen respiratory muscles and improve thoracic alignment, thereby promoting optimal breathing mechanics. Specifically, yogic breathing exercises enhance the strength of respiratory muscles and encourage efficient diaphragm use.

The combination of mindful yoga movements and meditation may provide cognitive benefits that surpass those of traditional physical exercise. Due to its multimodal approach and ability to address multiple geriatric syndromes simultaneously, yoga is considered an appealing non-pharmacologic intervention. It is popular, feasible, adaptable, and generally safe, especially when practiced under initial supervision.[9]

> "A study conducted in the United Kingdom examined the impact of diet on longevity...The findings revealed adults aged 40 with median dietary patterns could expect an increase in life expectancy of approximately three years through sustained adherence to longevity-associated diets"

Diet

A study conducted in the United Kingdom examined the impact of diet on longevity. The study used a model to estimate life expectancy gains from a sustained change from median or unhealthy dietary patterns in the UK to the longevity-associated dietary pattern, or to the recommendations of the Eatwell Guide. The findings revealed adults aged 40 with median dietary patterns could expect an increase in life expectancy of approximately three years through sustained adherence to longevity-associated diets. Notably, individuals transitioning from the least healthy to longevity-associated dietary patterns could expect an approximate decade-long increase in life expectancy. In general, the more substantial the changes toward a healthier dietary pattern, the greater the expected gains in life expectancy.[10]

Sleep

Sleep is one of the pillars towards healthy life. According to the American College of Cardiology, getting good sleep can play a role in supporting heart and overall health and ultimately maybe even how long an individual lives. New research presented at the American College of Cardiology's Annual Scientific Session together with the World Congress of Cardiology found that young people who have more beneficial sleep habits are incrementally less likely to die early. Moreover, the data suggest that about 8% of deaths from any cause could be attributed to poor sleep patterns.

Social relationships

Humans are inherently social beings, with a long evolutionary history of forming groups for hunting, protection, and social bonding. Despite substantial evolutionary advancements, social connectedness remains a critical factor for well-being. Experimental evidence shows that social relationships significantly influence mental health, morbidity, and mortality. For instance, Berkman and Breslow's prospective study in Alameda County demonstrated that greater involvement with both formal (e.g., religious organizations) and informal (e.g., friends and relatives) social networks was associated with healthier behaviours over a ten-year period. Social connections impact health behaviours by influencing or regulating health-related habits. These ties can foster a sense of responsibility and concern for others, motivating individuals to engage in behaviours that promote the well-being of both themselves and others. Social networks also provide information and establish behavioural norms, further shaping health habits. Thus, in a variety of ways, social ties may influence health habits that in turn affect physical health and mortality.[11]

Pet Ownership

Owning and caring for a pet has a positive impact on longevity. Some of the key factors contributing to this are noted below:

- Pet owners, especially dog owners, are more likely to meet recommended activity levels. One study found that new dog owners increased their walking hours after 12 months, with an average of one extra hour per week. Dog owners have a 34% higher chance of achieving at least 150 minutes of walking per week and a 69% higher chance of engaging in leisure-time physical activity compared to non-owners. Obesity risk is lower among dog owners.
- Pet ownership can aid recovery from cardiovascular events and increase resilience to such events. A study of 2,400 cat owners found a significantly lower risk of death from cardiovascular disease, including stroke and heart attack over 20 years, compared to non-owners. This is thought to be related to the buffering effect on stress that cats offer.
- Human-animal interaction triggers the release of hormones like dopamine and oxytocin, promoting relaxation and bonding. This increased relaxation helps protect against stress-related illnesses.
- Pet owners are more socially connected. A study of nearly 400 Australian suburban residents found that pet ownership was associated with

increased social contact, interaction, and perceptions of neighbourhood friendliness compared to non-owners.[12]

Conclusion

Compared to previous decades, the healthcare system today is significantly more advanced, characterized by systematic and efficient approaches. However, much of this care tends to focus on individual systems in isolation. As individuals age, multiple systems are affected, often in an interconnected manner. Given the aging population and its growing size, there is a need to shift focus toward preventive measures and adopt a more holistic approach to healthcare. Current evidence-based interventions emphasize multicomponent physical activity programs, nutritional supplementation, health behaviour education, and modifications to the home environment to address the complex needs of the aging population.

> "Compared to previous decades, the healthcare system today is significantly more advanced, characterised by systematic and efficient approaches. However, much of this care tends to focus on individual systems in isolation. As individuals age, multiple systems are affected, often in an interconnected manner. Given the ageing population and its growing size, there is a need to shift focus toward preventive measures and adopt a more holistic approach to healthcare"

Here we have given examples which are very basic requirements and are essential towards healthy aging. There are numerous other factors which influence longevity, such as engaging in hobbies, going on vacations, minimizing gadget use, staying connected with nature, listening to or learning music, or simply taking time out for selfcare. Each of these elements positively impacts overall health. Adopting healthier habits, whether it's exercising, dietary changes or being mindful, not only increases longevity, but also enhances the quality of later life.

From a life settlement underwriting perspective, information regarding lifestyle habits such as cigarette smoking and alcohol consumption is generally readily accessible, whereas other relevant details may be less forthcoming. Given this, it is crucial to be on the lookout for any information that may provide insights into the insured's overall approach to health and well-being. For example, there may be mention of recent or planned vacations or dietary preferences. Similarly, a medical report may include details of the insured's pets or exercise regime, or if they are socially active. A medical report may also give us clues as to the insured's sleeping pattern and mental health status. These small details not only provide insights into the individual's current health status, but also reveal their overall approach to life and well-being.

As discussed, life expectancy can be extended through specific lifestyle choices, underscoring the importance of gathering as much comprehensive information as possible during the underwriting process. This information will help form a holistic view of the insured, which in turn will assist the underwriter in calculating the most realistic and accurate life expectancy prediction.

Please note that this is a condensed version of the full article, which is available on CG Analysts website and LinkedIn.

Footnotes

1 Aging | Definition, Process, & Effects | Britannica

2 Aging as "Time-Related Dysfunction": A Perspective - PMC (nih.gov)

3 Ageing and health (who.int)

4 Diet and longevity in the Blue Zones: A set-and-forget issue? - PubMed (nih.gov)

5 Leisure Time Physical Activity of Moderate to Vigorous Intensity and Mortality: A Large Pooled Cohort Analysis - PMC (nih.gov)

6 Musculoskeletal exercise: Its role in promoting health and longevity - ScienceDirect

7 Physical Activity: A Viable Way to Reduce the Risks of Mild Cognitive Impairment, Alzheimer's Disease, and Vascular Dementia in Older Adults - PMC (nih.gov)

8 Yoga for Exercise – The Nutrition Source (harvard.edu)

9 The impact of yoga on aging physiology: A review - ScienceDirect

10 Life expectancy can increase by up to 10 years following sustained shifts towards healthier diets in the United Kingdom - PMC (nih.gov)

11 Social Relationships and Health: A Flashpoint for Health Policy - PMC (nih.gov)

12 The Relationship Between Pet Ownership and Longevity | HABRI

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Q&A

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The underwriting process in the life settlement industry has changed in the past two decades, as the accumulation of more data, and the increasing accuracy of that data, along with a generally expanding mortality profile of humans, has seen life expectancies (LEs) extending. Greg Winterton spoke to Dr Rahul Nawander, Medical Director at Fasano Underwriting, to get his views on what is impacting LEs generally from a medical perspective.

GW: Rahul, to begin, what are the current factors, from a medical perspective, that are having the greatest impact on mortality rates in the senior population in the US? Is anything improving anywhere?

RN: The main ones are still cancer and cardiovascular illnesses. There is a lot of stability in cardio deaths – there has not been much of an observable increase or decrease in the life expectancy of those with cardiovascular diseases. There has been some improvement in mortality in people with cancer, but it's specific to only a few types of cancers that are responding to immunotherapy medications, e.g., metastatic melanoma.

The main other one is dementia in the life settlement space. Again, we're not seeing any specific mortality improvements here – there has been stability in the LE profile of people with dementia since 2022. There is limited choice of medications and despite the research that is going on, there hasn't yet been any significant outcomes that have impacted a positive outcome for mortality.

In terms of life expectancy improvements, we're definitely seeing this in the organ transplant space. The development of immunosuppressants that adapt to the individual has been significant here. These drugs work so well that the insureds are living for another 10-15 years depending on the type of solid organ transplant, e.g., a heart transplant. We see these cases in the life settlement space; 10 years ago, the median LE was only five-eight years, and now it's up to 10-15 years. In the early years, no one knew. There has been a 100% jump in improvement - six to 12 years, three to six years, etc. – just in the last few years. When you see these individuals, they are mostly completely fine. And it's not just the immunosuppressants - improved techniques in surgery are contributing, too.

GW: You wrote an article that Life Risk News published in January this year that discussed the obesity paradox within BMI ranges. How much of an influence does obesity have when producing life expectancy data? Is it on a par with other comorbidities?

RN: It's important to remember that obesity in of itself is not a primary driver of mortality, it's that obesity contributes significantly to other ailments. If someone is obese, they have a higher risk of developing cardiovascular disease, for example. A sedentary lifestyle will lead to many illnesses, like osteoporosis. It's not just 'because you're obese, you're going to die'. It's that it causes other things – diabetes, hyperlipidaemia, fatty liver, are great examples of that – where the underlying reason is obesity. Obesity increases the risk of these cardiometabolic illnesses and contributes to ill health and accelerates the mortality.

Obesity also leads to hypoventilation – there is a lower oxygen concentration in your body, so everything starts to get compromised over time. Mortality is lower for the non-obese than someone who is obese but it's not the primary driver.

Continued on next page...

GW: You've been working in the insurance industry and related markets for a while. What are some of the notable changes that you have seen insurers implement in terms of adjusting their approaches to medical research and understanding?

RN: That's right, I'm now 20 years into this industry. Quite a lot has changed, and much of it recently. Going back to 2010 for example, you would not see many individuals with cancer accepted for insurance (and hence less of these applied for insurance) because it was beyond most insurance companies' risk-taking capacity. And there wasn't that much research into this and understanding of it at that time.

But that's changed since 2010. We're seeing a better understanding of these medical fields and research and then evidence-based underwriting for complex illnesses really began in earnest in 2012. By 2015, pretty much every insurance company had robust research to understand how to model things like cancer, and consequently, they have come up with products on the critical illness, living benefits, and even life insurance; for example, that reference and cover specific cancers. The adoption and incorporation of evidence-based underwriting brought newer products and improved the risk-taking capacity of insurers.

GW: What are your views on artificial intelligence in terms of analysing medical conditions and data? Is it something that is a help or a hindrance?

RN: AI has a lot of 'hallucination'. It's a term – it means that an AI model produces incorrect, misleading, or illogical information. I have seen an AI model where it goes and looks into the medical records and creates a summary and then starts to analyse conditions on its own and give a diagnosis. But that's a doctor's job. It's a clinical thing, with legal implications. We need to eliminate these hallucinations but there are companies trying to do this.

That said, it is a help. It's still pretty new, nascent. When the AI fully starts to understand these issues, we can actually start using it effectively. It's there but it's not there, if that makes sense.

One example is that I asked AI about an LE for stage IV ovarian cancer. It gave me LE of four years. I asked it how it came to that conclusion, and it said that it went to a website and found it. What website? On what basis did the author publish that conclusion? The AI said that it didn't have any studies to tell the basis for this, nor it could reference any studies or research.

Part of the reason is that research libraries are paid libraries. Every article costs money; $50, $75, $130, whatever. You have to realise that AI is just collecting data from websites – that's what Google does - and summarising. That is not a strong basis on which to calculate an LE. The credibility and quality of the evidence needs to be critically assessed and then adjusted for the type of product (life, health, living benefits, and life settlements); which is not what AI has yet achieved.

GW: Lastly, Rahul, onto something that is very much in the news at the time of writing, which is Ozempic. There is talk now that it could actually slow ageing. Is it too soon to understand its impact on mortality, or are there any data trends emerging? If so, what are they?

RN: Ozempic was only prescribed for control of diabetes in its initial time but now it's for control of weight. I've spoken to several people/patients who take it and researchers who have published studies and people do seem to be losing 25-30 lbs – around 8-10 % of their body weight on average. Some lost up to 15%.

It does seem to be stabilising at that point, however – people who take it are not continuously losing weight. If you weigh 100lbs and go to 85, you're doing well, and you might go to 80, but then you're stabilising. In terms of how it's helping, because obesity is an underlying cause of cardiometabolic and cardiovascular illnesses, the risk of someone getting a cardiovascular disease is going lower, and we're seeing the same in blood lipids – there is a possible circulating effect. The drill down effect is very positive – if you have a 15% to 25% reduced risk of getting a cardio illness, that is a statistically significant number.

Few Options for Investors To Access Canadian Secondary Life Markets but a Novel Idea Has Potential

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Four years ago last month, Canadian politician Rudy Cuzzetto, Member of Provincial Parliament for Mississauga-Lakeshore in Ontario, filed Bill 219, or the Life Settlements and Loans Act, 2020, which was aimed at amending section 115 of the Ontario Insurance Act to allow trafficking in life insurance.

The bill got a second reading but that, unfortunately for investors that might be interested in such an asset, is as far as it went.

So, the current state of play in the country is that only those in Quebec are able to sell their life insurance policy, but even so, headwinds prevail; the Canadian Life and Health Insurance Association (CLHIA) requested that Quebec ban the practice back in 2020/21 and even so, some life insurers in Canada forbid the sale of a life insurance policy as part of their terms and conditions.

> **"The charity would create a special purpose vehicle which would issue bonds and the investors would buy bonds just like they do with any other securitised asset"**
> **- Daniel Kahan, LifePoint Foundation for People with Special Needs**

So, what other options are there for investors to access longevity risk in Canada?

Reverse mortgage securitisations are one option. Just recently, at the end of September, CHIP Mortgage Trust sold CAD$175m of senior medium-term notes, which are backed by a portfolio of reverse mortgages from HomeEquity Bank, an originator of reverse mortgages.

You can also invest in the equity of life insurance companies. Canada has a growing pension risk transfer market which has significant longevity risk exposure, but a range of other exposures mitigate longevity risk, such as mortality risk, operational risk and market risk. Insurance company equity is not a pure-play longevity risk investment (nor are insurance corporate bonds). And, you have only limited choices – Manulife, Sun Life, Canada Life, Industrial Alliance and Empire Life are the only publicly traded life insurers in the country.

So, reverse mortgages it is. But one idea that could work – in theory – is lending against life insurance policies that are donated to charities.

Donating one's life insurance policy to a charity is legal in Canada. And those that transfer the ownership receive an immediate tax benefit for doing so - they receive a donation tax receipt for the actuarial Fair Market Value of the policy, and any accumulated dividends or interest, less any outstanding policy loans, which they can offset against their future annual tax bill for five years. Either the donor or the charity have to continue to pay the premiums to keep the policy in force, of course.

Which leaves the charity with an illiquid asset that will pay out at a future date. But the charity has no control over that payout. And they can't sell it, so to monetise it, they would need go down the classic securitisation route.

"The charity would create a special purpose vehicle which would issue bonds," said Daniel Kahan, Founder at LifePoint Foundation for People with Special Needs.

"And the investors would buy bonds just like they do with any other securitised asset."

But what of the longevity risk and the j-curve nature of the return stream for a portfolio of life settlements?

"The SPV would obviously need some kind of liquidity facility or reserve account so that the bondholders could receive the interest payments due in the early stage of the lifespan of the pool. But investment banks have plenty of experience in structuring these types of products and sophisticated investors have plenty of experience in working with them. This is not something that would be a barrier to getting this done," said Kahan.

Going down the SPV route is not the only benefit to investors.

"Larger charities tend to be better capitalised and have access to more funding options than smaller ones, but there are still liquidity risks, of course. If the worst were to happen, then holding the assets in an SPV insulates the bondholders from any kind of balance sheet risk," said Kahan.

Unlike the reverse mortgage market, however, should such a market emerge, a wide range of investors could participate. Reverse mortgages are long-term assets; if a 55-year-old Canadian takes out a reverse mortgage, with an average life expectancy of 81.6 years, the loan won't mature for another 25 years or so. Credit hedge funds can't onboard that kind of duration, and even private credit investors might need to roll it across a couple of different funds before the SPV reaches maturity.

> **"There is a societal benefit to this as well – the proceeds from selling the bonds can be deployed to support the charity's mission sooner, as opposed to waiting for the policy to mature. It is a case of continuing to talk to charities, structurers and investors to keep the conversation moving forward"**
> **- Daniel Kahan, LifePoint Foundation for People with Special Needs**

But life insurance policy securitisations could support credit hedge funds' duration requirements depending on the life expectancies of the policies backing the pool.

"The charity would obtain life expectancy reports, just like buyers do in the life settlement market in the US," said Kahan.

"And the policies with the shorter LEs would be the ones that make it into the pool – the longer ones would go into the next pool as their expected maturity date gets closer," said Kahan.

Indeed, there is no reason why the bonds could not be tradeable between credit investors, just as regular RMBS products are.

But what is the likelihood of this actually happening? Are there enough policies held by charities to support a securitisation? Or are investors looking for longevity exposure going to need to be ok with reverse mortgages being the only option?

"There are those of us in Canada who are trying to get this off the ground – it is pretty clear, unfortunately, that there will not be a similar market to the US life settlement market in Canada any time soon," said Kahan.

"But there is no reason that the securitisation model can't work. Some of the larger charities will likely have enough policies to get this off the ground. And there is a societal benefit to this as well – the proceeds from selling the bonds can be deployed to support the charity's mission sooner, as opposed to waiting for the policy to mature. The process and the structures are established. It is a case of continuing to talk to charities, structurers and investors to keep the conversation moving forward."

Neither Mr. Cuzzetto nor CLHIA responded to a request for comment for this article.

Life Risk News

Life Risk News
ISSN 2753-7374
Volume 3, Issue 11
November 2024

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