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Credit and Liquidity Risk Back in Focus but Life Settlement Market Looks to 2025 With Optimism

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Editor's Letter, Volume 3, Issue 12, December 2024

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The PHL Variable Life Insurance Company rehabilitation news story was a significant one in the life settlement market this year, but plenty of other topics and trends impact the space both now and going forward. *Greg Winterton* spoke to **Simon Erritt**, Senior Managing Director at **Coventry Capital** and **Rob Haynie**, Managing Director at **Life Settlements Inc**, to get their views on some of these, and their impact, in *Credit and Liquidity Risk Back in Focus but Life Settlement Market Looks to 2025 With Optimism*.

The total surplus of the approximately 5,000 defined benefit pension schemes in the UK reached a new record of £300bn in September according to PwC, which has brought with it the luxury of choice with regards to scheme's end-game options. So, rather than rushing to seek an insurer-led buy-out, some trustees are considering other solutions. *Samantha Downes* spoke to **Charlie Finch**, Partner at **Lane, Clark & Peacock**, to get his views in *To Buy-Out, or Not To Buy-Out?*

The life settlement market received a small but not insignificant boost recently, as the National Council of Insurance Legislators (NCOIL) made some amendments to its *Life Settlement Model Act* at its annual meeting in San Antonio, TX, just before the Thanksgiving holiday in the US. *Greg Winterton* spoke to **John Dallas**, CEO at **Berkshire Settlements** and current Chair at industry group the **Life Insurance Settlement Association (LISA)**, and **Brian Casey**, Partner at **Locke Lord**, to see what tehy thought about the change in *Latest Version of NCOIL Life Settlements Model Act Provides Welcome Update to Outdated Processes*.

The life settlement market has changed significantly since it's inception 20 years or so ago, maturing and stabilising in terms of the processes and the firms participating in it. Still, change is constant, and so **Bryan Nicholson**, Executive Director at **LISA** explains what is changing at the organisation and its plans going forward in *Taking the Next Steps to Better Serve the Life Settlement Market*, a guest article.

The 2024 edition of the Life Insurance Fact Book – the American Council of Life Insurers' annual review into the inner workings of US-based life insurance company balance sheets – was published in early November. **Roger Lawrence**, Managing Director at **WL Consulting**, took a look at the top-level takeaways from this year's edition in *US Life Insurance Industry Posts Solid 2023 Despite Macroeconomic Challenges*, a guest article this month.

A range of events in the past few years have had a significant impact on mortality in the UK, and arguably the outlook is as unclear as it has been for some time. *Greg Winterton* caught up with **Cobus Daneel**, Chair of the CMI Mortality Projections Committee at the **Institute and Faculty of Actuaries**, to find out what is top of mind in the mortality actuarial world as we look ahead to 2025 in this month's *Q&A*.

Data from consulting firm **WTW**, published at the beginning of this year, shows that aggregate longevity swap insurance premium in the UK pension risk transfer (PRT) market was the lowest in 2023 for at least five years but a recent transaction shows that the appetite for these deals remains. *Greg Winterton* spoke to **Shelly Beard**, Managing Director at **WTW**, to get her thoughts on the space in *Longevity Swaps are Back? They Never Went Away*.

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

Credit and Liquidity Risk Back in Focus but Life Settlement Market Looks to 2025 With Optimism

Author:
Greg Winterton
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Life Risk News

The Office of Financial Research in the US published its 2024 Annual Report to Congress on 20 November, the organisation's yearly review of its activities and efforts.

This year, the report contained something close to home for the life settlement market – a note on page 53 that began: "The most important current life insurer vulnerabilities are associated with credit and liquidity risk".

These risks came to the fore in May for the life settlement industry when life insurance company PHL Variable Insurance Company (PHL) was entered into rehabilitation by the Connecticut Superior Court, which named Connecticut Insurance Commissioner Andrew Mais as Rehabilitator.

A significant part of the reason why PHL was entered into rehabilitation was due to its portfolio of investor-owned life insurance policies (IOLI), including those under the Phoenix Accumulation Universal Life (PAUL) policies. These products offered guaranteed benefits but became a liability due to underperforming assumptions including lapse rates, the interest rate environment, higher than expected mortality costs, and inadequate capitalisation. The cumulative impact of these challenges left PHL with a negative surplus and liabilities projected to outstrip assets by $1.46 billion by 2030.

"Greater attention is being paid to the financial strength and performance of the companies that issued policies owned by life settlement investors"
- Scott Hawkins, Conning

The extent to which the PHL saga will impact the life settlement market is currently unclear, but according to Scott Hawkins, Head of Insurance Research at Conning, investors are already being somewhat more selective in terms of exposure to the life insurance companies standing behind the policies.

"Greater attention is being paid to the financial strength and performance of the companies that issued policies owned by life settlement investors," he said in a press release covering the publication of *Life Settlements: Steady On*, the firm's 2024 edition of its annual review of the life settlement market.

"Our analysis in this report found that at the end of 2023, the companies targeted by life settlements investors had a weighted average RBC (risk-based capital) slightly higher than the weighted average for the overall life insurance industry. While variations exist within the group, the higher RBC levels suggest investors have favoured policies issued by strongly capitalised insurers," he added.

If indeed the life settlement market is adjusting its risk management approach in the short term, the bigger picture would seem to look more positive.

Conning's report says that the secondary market is set to grow from its current $4.5bn or so in face value size to $5.5bn by 2033, and the gross market potential is set to rise from its current $200bn (approximately) to around $240bn on average. Even if life settlement asset managers were to mandate that every policy that they buy carries two serious medical conditions, then the gross market potential would still rise from $160bn today to $204bn in 2033.

But not every insured will enter into a life settlement transaction, of course. Which makes the gross number, while useful, a touch misleading. So, Conning have also calculated the net market potential, which considers the percentage of policy owners that meet investor criteria and who might consider selling their policy. That number is still a significant $170bn in 2024, rising to $180bn in 2033; even if the market were only 40% saturated, the net market potential would be approximately $95bn now, rising to $100bn in 2033.

The mathematically inclined will see that the current penetration rate is therefore approximately 2.6% of the net. This can be attributed to a few reasons, one of which is awareness – or, not enough of it – among the senior population.

Efforts are underway to address the challenges. Industry groups the Life Insurance Settlement Association (LISA) and the European Life Settlement Association (ELSA, publisher of Life Risk News) each have a range of initiatives designed to improve the general awareness level, whether that be among consumers, investors, or both.

But Conning's report identifies the growth in the direct-to-consumer (DTC) part of the life settlement market as one that could have an impact.

"The emergence of mass media consumer advertising, especially television commercials, about life settlements is likely to have a positive impact on the gross market potential…while life settlements commercials are currently limited in terms of the number of providers advertising, this may be a case of a rising tide lifting all boats," says the Conning report.

Simon Erritt, Senior Managing Director at Coventry Capital, agrees that the growth of the DTC market has made a substantial difference in recent years.

> **"Longevity risk analysis continues to improve… Add to that the growth in the secondary market in recent years, and I'd argue that the life settlement market has plenty to be positive about as we enter 2025"**
> **- Simon Erritt, Coventry Capital**

"I'd agree that media advertising has had a strong impact on our market and would go as far as to say that it is now the number one driver of supply into the secondary market," he said.

Other hurdles remain. The life settlement market is heavy on administration, as brokers in the intermediated channel, and providers in the DTC, have to source medical records, and go back and forth with life insurance companies, which can, sometimes, take weeks, and not days.

"There are some tasks in the process of completing a life settlement transaction that are out of our control," said Rob Haynie, Managing Director at Life Settlements Inc. "In the broker market, that makes it incumbent on us to manage expectations with the client accordingly."

These challenges are nothing new to those in the life settlement market, but as it looks towards a new year, for Erritt, there is justifiable optimism. Interest rates, while having less of an impact on the market than they do other alternative assets, are now at lower levels than in the recent past, suggesting that capital allocators could take another look at alternative assets such as life settlements in the search for yield.

And, despite the OFR's apparent concerns, risk management processes in the life settlement space are robust, and other tailwinds should propel the market forward.

"The PHL Variable issue will impact some firms, but not all. And longevity risk analysis continues to improve," said Erritt. "Add to that the growth in the secondary market in recent years, and I'd argue that the life settlement market has plenty to be positive about as we enter 2025."

To Buy-Out, or Not To Buy-Out?

Author:
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The total surplus of the approximately 5,000 defined benefit (DB) pension schemes in the UK reached a new record of £300bn in September according to PwC, which has brought with it the luxury of choice with regards to scheme's end-game options.

So, rather than rushing to seek an insurer-led buy-out, some trustees are having what Goldman Sachs's Henry Hughes and Cyprian Njamma call in *Beyond Buy-out: Rethinking the Endgame for UK Pension Schemes*, a recent article published on the firm's website, a "strategic rethink about the endgame planned for their schemes".

Goldman Sachs' article discusses the benefits to a DB pension of either going the buy-out route or running on, and pensions consultancy Lane, Clark and Peacock (LCP) said it was finding a marked increase in schemes considering run-on strategies versus full insurance at an earlier stage.

In *Reaching cruising altitude*, a recent report by the firm, LCP said while funding positions remain important the position in 2024 had been "more nuanced".

The report found trustees are using their funding position to buy time, so taking stock in key areas including data readiness, benefit certainty, illiquid asset run-off, and member experience. Sponsoring companies were also using this pause to look at whether deferring a buy-out would result in better value for both themselves and scheme members.

The report also cited Mansion House reforms, a rise in pensioner action groups lobbying for discretionary pension and increased media scrutiny of deals as other reasons why schemes may be looking at their options.

> **"Our projections show a slight dampening over the next five years with higher demand in later years and demand remaining at circa £400bn to £600bn over the next decade"**
> **- Charlie Finch, LCP**

"Our 2024 survey showed a marked increase in schemes considering run-on strategies versus full insurance at an earlier stage, except for giant schemes over £5bn," says the report.

According to Charlie Finch, Partner at LCP, there may indeed be something of a plateauing of activity in the market in the short term.

"Our projections show a slight dampening over the next five years with higher demand in later years and demand remaining at circa £400bn to £600bn over the next decade," he said.

The main alternative to an insurance buy-out is for the scheme to run on. Hughes and Njamma's article says that there is increased interest from trustees in fiduciary management, where schemes take on a third-party asset manager specialising in implementing a bespoke run on investment strategy.

"Fiduciary management is becoming a standard tool, with 18 per cent of UK pension schemes using this service in some form," the article says.

The cost of a buy-out was a consideration in the decision to run on but Goldman was also finding that sponsoring companies were using fiduciary management to keep a pension scheme running out of a sense of responsibility to current and former employees.

"It is our opinion that trustees who are charting a course toward a buy-out agreement with an insurance company will also need to be sensitive to how insurers invest, taking into account solvency capital, regulatory and accounting considerations, and other inputs to target better risk-transfer pricing," says the article.

"Conversely, trustees who see value in retaining control of their schemes, and have the investment capability to run on successfully, may have the opportunity to invest in areas of the market often eschewed by insurers, such as securitisations."

There are other alternatives emerging to both buy-out and run on. Last month, M&G announced it had completed a risk-sharing buy-in with an unnamed pension scheme and its sponsor.

The deal involved 3,200 members and came in at £500m. Members were insured in the same way as they would be via a traditional buy-in, but instead the sponsoring employer remains involved, sharing the financial risks and any potential upsides.

M&G completed the deal using its 'value share bulk annuity' service. This involved a Guernsey-based reinsurer owned by M&G, alongside The Prudential Assurance Company, M&G's parent company.

The sponsor also retains the option to withdraw any excess from the reinsurer once a year.

"The solution we have achieved ultimately enables the trustee to achieve their derisking objectives and secure members' benefits, while enabling the sponsor to access risks and rewards that would be passed to an insurer in a more traditional transaction," said Alison Fleming, Partner at PwC, an adviser on the deal in the press release that accompanied the announcement.

M&G life insurance CEO Clive Bolton said it was a "ground-breaking" transaction that provided scheme members with the security of a buy-in, while sharing the financial risk and upside with the corporate sponsor.

"This significant de-risking milestone has been made possible thanks to the strong alignment of interests, collaboration and commitment between all parties involved," he said, in the same press release.

Even with options such as these, the growth in the number of market participants this year means that UK DB pensions have options galore in terms of choosing an insurance partner for those that still wish to enter into a full-scheme buy-out transaction. It's mainly a question of when.

> **"How these dynamics will evolve into 2025 is a fascinating question. With some of the best full scheme buy-in pricing we have seen for years, could this speed up the decisions for some well-funded schemes to move to insurance, or will they judge the risks and rewards of a period of run-on ahead of insurance as acceptable and appropriate?"**
> **- Charlie Finch, LCP**

"With total annual insurer capacity comfortably over £50bn and new insurer entrants taking total market participants to record numbers, pension schemes are finding that the emerging supply / demand dynamics are delivering great outcomes in current transactions," said Finch.

"How these dynamics will evolve into 2025 is a fascinating question. With some of the best full scheme buy-in pricing we have seen for years, could this speed up the decisions for some well-funded schemes to move to insurance, or will they judge the risks and rewards of a period of run-on ahead of insurance as acceptable and appropriate?"

Latest Version of NCOIL Life Settlements Model Act Provides Welcome Update to Outdated Processes

Author:
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Life Risk News

Ask any life settlement broker or provider about the administrative processes involved in completing a life settlement transaction and the response you receive will likely be one of frustration on a good day and something resembling infuriation on a bad day.

Part of the reason why is simply because of the nature of an auction process and the detailed regulatory compliance requirements to complete a transaction. In the intermediated/broker secondary market, frequently these firms are going back and forth between the bidding licensed life settlement provider(s) and the policyowner/insured, and this takes time.

But another reason why is the nature of dealing with the insurance companies that issue the policies. Speak to any life settlement market participant at an industry conference and you'll invariably encounter a rolling of the eyes and/or a raised eyebrow when discussing the process.

So, the life settlement market received a small, but not insignificant boost recently, as the National Council of Insurance Legislators (NCOIL), an association of state insurance legislators, made some amendments to its Life Settlement Model Act at its annual meeting in San Antonio, TX, just before the Thanksgiving holiday in the US.

> **"While it is true that these amendments benefit our members and the market at large, I would point out that this also benefits the American senior, who has, for too long, been caught up in the administrative back and forth with regards to the accepting of electronic documents"**
> **- John Dallas, Berkshire Settlements / LISA**

The NCOIL Model Act is one of two Model Acts that serve as the basis for the regulatory environment of the secondary market in the US (the other being the National Association of Insurance Commissioners' Viatical Settlements Act), and the inaugural version of which was adopted 24 years ago to the month. Any changes to it are usually significant for the industry.

And now, life insurance companies in states that had adopted the NCOIL Model Act as their regulatory framework – so, most of them: "shall accept an original or facsimile or electronically delivered copy of such request for verification of coverage and any accompanying authorization signed by the [life insurance policy] owner," according to section 11 B.

Additionally, section 11 D adds that: "The insurer shall, upon request by the owner or the owner's authorized representative, send confirmation of change of ownership or beneficiary via facsimile or electronic mail", and section 13 A 10 now says: "with respect to an insurer, deny legal effect, validity or enforceability of any signature, contract or other record relating to a life settlement transaction solely because it is in electronic form."

The tweaks have been welcomed by the industry.

"We are pleased that these amendments have been made to the NCOIL Life Settlement Model Act," said John Dallas, CEO at Berkshire Settlements and Chair at industry group, the Life Insurance Settlement Association (LISA).

"While it is true that these amendments benefit our members and the market at large, I would point out that this also benefits the American senior, who has, for too long, been caught up in the administrative back and forth with regards to the accepting of electronic documents."

The amendments were sponsored by Rep. Forrest Bennett (OK) and NCOIL's Life Insurance & Financial Planning Committee passed the amendments.

"I was very pleased to see a consensus reached on the amendments to the Life Settlements Model Act," said Rep. Carl Anderson (SC), who chaired the Life Insurance & Financial Planning Committee at the meeting.

"I look forward to the Committee continuing its work in my home state during our Spring Meeting in April."

NCOIL reviews its Model Acts approximately every five years; the Life Settlements version was readopted by the NCOIL Executive Committee on

9th March, 2014 and 17th March, 2019, but has not seen any amendments since 2007.

This time, LISA was actually hoping for more amendments. At the NCOIL Spring meeting in April, LISA had pushed for a maximum 21-day turnaround from life insurers, which did not make the cut this time. Currently, the licensed provider must notify the insurance carrier that a life insurance policy has become subject to a life settlement transaction, but there is no requirement on the carrier to respond within a certain time period.

Assuming NCOIL sticks to recent form, the next time the Life Settlements Model Act will be up for review will be in 2029. Until then, at least, from a regulatory perspective, further change is unlikely, but in the short term, it is over to the state legislatures to implement the changes to the Model Act – or not.

> **“Once changes are enacted into law or incorporated into state regulations, it is typically the responsibility of the state insurance department (overseen by the state insurance commissioner) to enforce the updated laws or regulations. This will not happen overnight”**
> **- Brian Casey, Locke Lord**

“Amendments to NCOIL’s model acts become relevant only if and when a state legislature chooses to enact or amend their corresponding state laws, or a state insurance department issue a regulation, based on the updated model statute,” said Brian Casey, Co-Chair of the Insurance Transactions and Regulatory Practice Group at Locke Lord LLP.

“The responsibility for adopting changes to model acts lies with the state legislatures. If a state legislature decides to amend its laws to reflect NCOIL’s updates, it must go through the legislative process - drafting, debates, and then, enactment. Once changes are enacted into law or incorporated into state regulations, it is typically the responsibility of the state insurance department (overseen by the state insurance commissioner) to enforce the updated laws or regulations. This will not happen overnight.”

Still, a win is a win, as they say. And, for Dallas, the amendments should, when enacted by the states, provide a boon to an industry that has recently been on a growth trajectory.

“The secondary market for life settlements is growing over time, in terms of the number of policies transacted and face value. But far too frequently, we have had situations where the policyholder decided not to sell because they were frustrated with the process. These amendments should reduce these situations where a transaction falls away, meaning that more American seniors will realise the benefit of the life settlement market.”

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Life Risk News

Taking the Next Steps to Better Serve the Life Settlement Market

Author:
Bryan Nicholson
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Life Insurance Settlement Association

> "The core purpose rarely, if ever, changes, but sometimes, the way businesses and organisations work to deliver on their goals does. This is also true of LISA, and we are excited to explain to the industry how we are evolving in order to better support our members and the life settlement industry at large"

Established in 1994, the Life Insurance Settlement Association (LISA) is the oldest and largest trade organisation in the life settlement market. LISA's membership consists of brokers, providers, financing entities and service providers to the industry such as law firms, medical underwriters, consultants, investment funds, actuarial firms, trustees and escrow agents, which all support LISA's core purpose: To promote the development, integrity and reputation of the life settlement industry and advocate for a competitive marketplace.

The core purpose rarely, if ever, changes, but sometimes, the way businesses and organisations work to deliver on their goals does. This is also true of LISA, and we are excited to explain to the industry how we are evolving in order to better support our members and the life settlement industry at large.

We recently commissioned Tecker International, a leading consulting firm, to help us refine LISA's mission and vision for the future and to develop an actionable plan to achieve those goals.

To begin the process, we distributed an online survey to members in June this year. The survey was designed to understand the sentiments held by the LISA membership on the state of the life settlement industry and LISA's role as the industry's greatest advocate.

The good news is that, with regards to the life settlement market specifically, our membership is largely bullish. A total of 59% of survey respondents said that they expect the life settlement industry to be 'better' positioned in the next three to five years than it is now, with 35% saying 'same'. Only 6% said it would be 'worse'.

We also asked the LISA membership's views on the general economic climate. 70% said they felt it would be 'better' in the next three to five years, 12% said 'same' and 18% said 'worse'. This helps us to better understand how our members see our industry when compared to the overall macroeconomic picture, and, while the correlation is high, overall, our members are largely expecting our industry to either stay the same or improve when compared to the general economy in the next few years.

We also conducted one-to-one interviews with LISA members to drill down into their views on LISA as an organisation and an industry advocate, whether they be positive or less so. We asked what our members thought would be the single most significant issue influencing the life settlement industry in the next three to five years.

The results for this question were varied. Some included macroeconomic factors, such as interest rates. Others included the lack of ability to absorb a significant increase in activity due to the administration involved in the process of selling a policy, the lack of 'optimal' policies to sell and the amount of investor capital that is looking for realistic returns.

The results of this surveying, coupled with a two-day strategy session with LISA's Board of Directors, helped us to define two top-level focus areas: increasing engagement with the institutional investor community, and maintaining LISA's sustainability as an organisation.

With regards to the investor community, we intend for this cohort to rely upon LISA as their connection to the life settlement market as a result of systematic engagement with LISA-developed content, including asset manager-led data collection, and the ongoing exchange of market-related information. We are in the process of formulating and refining plans to support this goal leading into 2025.

In terms of LISA's sustainability, we are planning for LISA to have growing and sustainable revenue streams that support our operational objectives and drive engagement across the organisation's membership. The immediate first steps related to this work will focus on the structural components of membership categories and dues, along with focusing on potential modifications to LISA's flagship events.

> **"As an organisation, LISA is committed to being member-centric and an industry champion; promoting integrity and transparency within the industry, being welcoming and respectful of all, and leading by example"**

We have also defined core values that will underpin these objectives and all of LISA's work going forward. As an organisation, LISA is committed to being member-centric and an industry champion; promoting integrity and transparency within the industry, being welcoming and respectful of all, and leading by example.

The mission of the Life Insurance Settlement Association is to advance the highest standards of practice and professional development for the industry, and to educate consumers and advisors about a life settlement as an alternative to lapse or surrender of a life insurance policy. We look forward to continuing to work with life settlement market participants to deliver against these goals.

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

US Life Insurance Industry Posts Solid 2023 Despite Macroeconomic Challenges

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> "The number of active life insurers in the US continued its decline from 727 in 2022 to 719 in 2023 as further consolidation and, for mutuals, demutualisation, continues to be popular so that they can access additional capital"

The 2024 edition of the Life Insurance Fact Book – the American Council of Life Insurers (ACLI) annual review into the inner workings of US-based life insurance company balance sheets – was published in early November. As with last year, I will be highlighting some notable and interesting takeaways from the Fact Book for a series of articles for Life Risk News, starting with this one, a review of key statistics for the life insurance industry in general and some that have relevance for the life settlement industry in particular.

General Industry Performance in 2023

The number of active life insurers in the US continued its decline from 727 in 2022 to 719 in 2023 as further consolidation and, for mutuals, demutualisation, continues to be popular so that they can access additional capital. Total assets of life insurers rose from $8.27trn to $8.74trn (+6.7%) whilst total liabilities rose from $7.79trn to $8.23trn (+5.7%).

This gap in growth between assets and liabilities unsurprisingly led to a rise in Capital Ratios (CR) – those which measure straight surplus. The CR, including the Asset Valuation Reserve (AVR, a reserve to smooth changes in asset prices) changed from 10.5% to 10.7% and, excluding the AVR, from 8.9% to 9.0%.

The AVR, which moves up or down to smooth both variable credit and equity asset price movements, rose 13.1% in 2023 to an aggregate $99bn whilst its sibling, the Interest Maintenance Reserve (IMR), which covers fixed income investments, shrunk 36.3% to $15bn. These movements should not be unexpected in a year when US equity prices rose and bond prices continued to fall further, although the final year-on-year change was not as marked as it would have been if yields remained as high as they were in October 2023.

Life Insurance Products

For life insurance products the picture was one of stasis.

Individual policy in-force face amounts were $13.98trn at the year-end, marginally down from $14.02trn (-0.3%), with aggregate group policy face rising 5.3% from $7.39trn to $8.10trn. In total, all life policy in-force face changed from $21.61trn to $22.15trn (+1.6%).

Despite the fall in individual policy face amount, policy reserves all rose. For individual policies, reserves rose 1.6% from $1.630trn to $1.656trn and group business reserves changed from $0.189trn to $0.194trn.

Premium income on life products was less robust, falling from $170bn to $122bn during the year (-28.2%), which is a notable drop.

Claims paid in individual contracts rose over the year in aggregate. Contractual payments from death claims were slightly down from $67.8bn to $66.3bn (-2.2%) but surrender payments rose from $28.8bn to £35.8bn (+24.1%). Although a much smaller group by value, surrenders on group policies rose from $1.1bn to $5.8bn, a significant rise of 447%.

These surrender statistics are underpinned by the rise in individual policy lapse rates in 2023 to 7.3% from 5.7% whilst those for group contracts dropped slightly from 3.9% to 3.8%.

New business, ignoring a tiny amount of credit insurance, on the other hand was surprisingly buoyant.

New life products issued by number and face are shown in Figures 1 and 2 below:

Table 1: New US Life Insurance Business by Face Amount, 2023 ($trns)

Type	2022	2023	Change
Individual Face	$1.871	$1.971	+5.4%
Group Face	$1.427	$1.617	+13.4%
Total Face	$3.340	$3.633	+8.8%

Source: ACLI Life Insurer's Fact Book, 2024 Edition

Table 2: New US Life Insurance Business by Type, 2023 (000s)

Type	2022	2023	Change
Individual Polices	9,499	9,586	+0.9%
Group Polices	25,473	27,394	+7.5%
Total Polices	40,016	42,532	+6.3%

Source: ACLI Life Insurer's Fact Book, 2024 Edition

We will look at these figures in more detail in future issues of Life Risk News. However, the immediate take away from them is that the life insurance industry is experiencing continued growth, with new life products showing growth for both individual and group face amount, and policy numbers. Notably, group policies have seen a significantly larger increase compared to individual policies.

"The immediate take away from them is that the life insurance industry is experiencing continued growth, with new life products showing growth for both individual and group face amount, and policy numbers"

This upward trend in the aggregate face value of policies could be attributed to inflationary pressures during this period, as policy owners adjust coverage amounts to reflect the changing economic landscape. Additionally, the increase in policy count might be partially driven by population growth, as more individuals and employers seek to secure financial protection. .

The drop in death benefits paid out is likely to have been down to the drop off in the Covid-19 effect. The ACLI yearbook includes mortality rates, but a further year in arrears (2021 has only just been added) and these, together with those from 2020, are markedly higher than in 2019 as shown in Table 3 below.

Table 3: Death Rate per 1,000 Americans

Year	Crude Death Rate per 1000
2018	8.7
2019	8.7
2020	10.3
2021	10.4

Source: ACLI Life Insurer's Fact Book, 2024 Edition

Most readers will already be fairly up to date with the rise and fall of Covid-19 deaths, but it is interesting to see that the death rate rose almost 20%, which is around the worldwide estimate of the addition to normal mortality that early Covid-19 added, and as we also know, the effect has dropped off, which helps explain why death claims were lower in 2023 than 2022.

> "Arguably, the US life insurance industry had a strong 2023 from a balance sheet perspective. Asset growth outpaced liability growth, and policy reserves grew as well and the legacy of the Covid-19 pandemic would appear to be diminishing"

Annuity Business

Finally, a shorter summary of the figures for annuities. Annuities represent approximately two-thirds of life insurers' reserves and so remain important.

Net new contributions (purchase monies and regular contributions) saw a huge change:

Table 4: US Life Insurance Company Net New Contributions, $bns

	2022	2023	Change
Individual	$167	$244	+46.3%
Group	$184	$116	-36.6%
Total	$351	$361	+2.9%

Source: ACLI Life Insurer's Fact Book, 2024 Edition

Table 5: US Life Insurance Company Annuity Reserves, $trns

	2022	2023	Change
Individual	$2.672	$2.866	+7.3%
Group	$1.220	$1.261	+3.4%

Source: ACLI Life Insurer's Fact Book, 2024 Edition

The figures for policy reserves merely stand to underline that this is a growing business line as more people join the retired pool. What does stand out is the big revolve for new contributions, with group business shrinking and individual business growing by almost equal and opposite amounts. This year's effect is not just explained by the runoff of corporate defined benefit (DB) pension schemes to more individually held DC policies like 401(k)s, but something more novel. DB schemes would seem to be securing retirees pensions with annuities in former scheme members own names, as well as possibly topping up early retirement pensions from company funds to facilitate redundancies.

It is therefore better to look at new contributions in aggregate and the picture remains one of steady growth and significance to insurers.

Conclusion

Arguably, the US life insurance industry had a strong 2023 from a balance sheet perspective. Asset growth outpaced liability growth, and policy reserves grew as well and the legacy of the Covid-19 pandemic would appear to be diminishing. After a year in which a significant news item emerged in the life settlement market in particular with the entering of PHL Variable Life Insurance Company into rehabilitation, the overall picture of life insurers as a risk counterparty appears on solid ground.

Q&A

Cobus Daneel
Chair, CMI Projections Committee, Institute and Faculty of Actuaries

Author:
Greg Winterton
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Life Risk News

A range of events in the past few years have had a significant impact on mortality in the UK, and arguably the outlook is as unclear as it has been for some time. Greg Winterton caught up with Cobus Daneel, Chair of the CMI Mortality Projections Committee at the Institute and Faculty of Actuaries, to find out what is top of mind in the mortality actuarial world as we look ahead to 2025.

GW: Cobus, let's start with the CMI's mortality monitor, the organisation's quarterly update. The most recent update was published in early October. What are the main conclusions that should be drawn from UK mortality data so far this year?

CD: In addition to our more extensive quarterly mortality monitors, the CMI also publishes shorter weekly monitors for those interested in the most up to date information on mortality trends. In the last quarterly monitor, we highlighted the fact that, while mortality rates in 2024 appear to be broadly in line with the record lows we've seen in 2019, there are significant differences across the age range. At older ages we are seeing a robust recovery, but mortality rates at younger ages are remaining stubbornly high following the pandemic.

GW: Earlier this year, the CMI's Self-administered Pension Schemes (SAPS) Committee published its latest annual analysis of the mortality experience of members of UK defined benefit pension schemes. What are you seeing here? How, if at all, is mortality for this cohort different to that of the general population?

CD: On average, life expectancies of DB pension scheme members exceed that of general population by about 1 to 1.5 years as they are typically from more affluent socio-economic groups. However, there can be quite a lot of variation between individual pension schemes, depending on the exact composition of their membership. The latest SAPS annual analysis suggests that mortality for DB pensioners has developed broadly in line with expectations, albeit with narrowing differentials between amount bands. It also adds further evidence that the impact of the pandemic during 2020 and 2021 was less severe for DB members.

GW: And what's the impact of this on the seemingly relentlessly growing pension risk transfer market in the UK?

CD: Recent developments in longevity does not appear to be having much of a direct impact on the pension risk transfer market. This is not unexpected – often other factors such as credit spreads have a more significant impact on pricing and, while views regarding the future path of mortality rates have changed, the overall assessment of longevity risk has remained stable. However, indirectly, lower life expectancies (combined with higher interest rates) have reduced DB pension liabilities and deficits, which mean that more DB schemes are in a position where they can transact.

GW: You modified the calibration process for CMI_2020 in your most recent model, CMI_2023, due to the exceptional nature of mortality data during the Covid-19 pandemic. What has been the feedback from your subscribers and what are the chances this might be adjusted again in future?

CD: Our subscribers have been generally supportive of the changes we've made to the CMI model as well as the overall core projections. However, there are concerns regarding the frequency of interventions in recent times and transparency of the process. As such for CMI_2024 we are consulting on some changes to the model with the aim of improving transparency and reducing the need for future interventions.

Continued on next page...

GW: Lastly, Cobus, what is top of mind for you and your colleagues at the CMI as we look to 2025 in terms of what is having or might potentially have a significant impact on UK mortality?

CD: Since the pandemic a key question has always been whether mortality rates will once again return to the pre-pandemic trend or if the pandemic will have a more fundamental impact in the medium to longer term. Whether or not we see another significant improvement in mortality in 2025 may go a long way in answering that question. We'll also be keeping a close eye on potential further divergence between age groups as well as any indications regarding progress in terms of Health and Social Care challenges.

Longevity Swaps Are Back? They Never Went Away

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Data from consulting firm WTW in its *De-risking report 2024*, published at the beginning of this year, shows that aggregate longevity swap insurance premium in the UK pension risk transfer (PRT) market was the lowest for at least five years, with only a little over £10bn in aggregate value being seen in the market.

That figure is notably less than 2020 (£25bn), 2021 (£15bn) and 2022 (£16.5bn). But the drop-off in longevity swap activity should not be surprising, as in recent years, higher interest rates have reduced the present value of future pension scheme liabilities, driving the defined benefit (DB) pension fund market to record surpluses; this funding status improvement has enabled activity in the buy-in and buy-out market, the other two types of bulk purchase annuity transaction in the market, to thrive.

> "While it's true that buy-out is still the ultimate goal for most schemes, longevity swaps are also playing a strong role in protecting scheme members, particularly for smaller tranches of liabilities"
> - Shelly Beard, WTW

But the longevity swap market has not gone the way of the dinosaurs just yet. In early December, for example, the Merchant Navy Ratings Pension Fund (MNRF) entered into a longevity swap transaction with MetLife, worth approximately £450m.

The arrangement provides long-term protection to MNRPF against costs resulting from pensioners or their dependants living longer than expected and enhances security for MNRPF members.

Shelly Beard, Managing Director at WTW, and lead adviser to the trustee of MNRPF, said that the deal shows that these types of transactions still have a place in the UK PRT space.

"Different schemes are at different points on their de-risking journey, and different transactions appeal to schemes for different reasons," she said.

"While it's true that buy-out is still the ultimate goal for most schemes, longevity swaps are also playing a strong role in protecting scheme members, particularly for smaller tranches of liabilities."

Unlike buy-in and buy-out transactions, longevity swaps see the pension scheme retain both the assets and the liabilities associated with the scheme; pension plans bullish about their ability to wring out better returns on their own are natural bedfellows here, as are those which have a significant amount of higher-yielding, but riskier, illiquid assets, as selling these at a discount (to realise liquidity quickly) might not be desirable.

And they provide the plan sponsor with more flexibility. As Beard alludes to above, longevity swaps can be customised to cover specific portions of a scheme's population.

Still, buy-in and buy-out transactions have been much more commonplace in the UK market, at least in recent years, with the latter being something of a 'holy grail' endgame solution for DB pension schemes as they completely remove longevity risk, inflation risk, regulatory risk and investment risk from the sponsor, not to mention the administrative costs of maintaining the scheme.

The MNRPF deal aside, 2024 has been something of a dry patch for the longevity swap market, as firms have been rushing to get a buy-in or buy-out completed. And the recent cuts in interest rates by the Bank of England will not cause schemes to become underwater from a funding perspective, as many would have implemented a hedge to lock in their funding status to provide cover for such a situation.

That means that it's unlikely that activity in the longevity swaps part of the pensions de-risking market will see a return to the halcyon days of the recent past, at least in the short term, unless something extraordinary happens at the mortality level.

Insurance actuaries use general mortality tables – and their own datasets – as inputs into the price they calculate that they will eventually charge to schemes for the insurance premium. In the UK, life expectancy at birth has been steadily rising in the past century, reaching 82.1years in 2022. If an extraordinary occurrence were to happen that would impact population mortality, such as a cure for cancer, then you might see some schemes rushing to get a longevity swap done quickly.

But, for now, it is likely that the composition of the market in terms of transaction types will be similar going forward as they have been in the past couple of years – at least, in the short term.

"Longevity swaps are definitely not going away, but the structural features of the market – plenty of well-funded schemes, good options for schemes in terms of insurers, and competitive pricing – means that buy-ins and buy-outs will continue to deliver the lion's share of the activity in the space in 2025, and likely beyond," said Beard.

> **"For schemes out there that are looking for flexibility, cost control and investment control, longevity swaps are still very much an option, and I'd urge them not to discount it"**
> **- Shelly Beard, WTW**

"But for schemes out there that are looking for flexibility, cost control and investment control, longevity swaps are still very much an option, and I'd urge them not to discount it."

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