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New Report Provides Both Food for Thought and Positive Reinforcement for Life Settlement Market

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Editor's Letter, Volume 4, Issue 01, January 2025

Chris Wells
Managing Editor
Life Risk News

Happy New Year.

The life settlement industry regularly touts the lack of correlation to public equity and liquid fixed income markets and diversification benefits as two of the reasons why institutional, end investors should consider allocating capital to the asset class. Historically, however, that view has not had the benefit of being data-backed at the aggregate level – until now. *Unlocking Value: Insights into Life Settlements Investment Trends* is a new report from industry group the **European Life Settlement Association** and insurance asset management firm, **Conning**, that digs into the attitudes of investors, both positive and less so, towards the asset class. *Greg Winterton* spoke to **Hanna Persson**, Head of Sales at **Ress Capital**, and **Chris Conway**, Chief Development Officer at **ISC Services**, for their thoughts on the findings in *New Report Provides Both Food for Thought and Positive Reinforcement for Life Settlement Market*.

The UK's pension risk transfer market had a busy year in 2024, continuing the theme of the past few years. While the total aggregate value of the market last year will not be known for a few weeks, back in September, Legal & General predicted one in excess of £40bn, which would rank among the largest years for bulk purchase annuity deals in the country. *Samantha Downes* spoke to **Kunal Sood**, Managing Director of Defined Benefit Solutions at **Standard Life**, to get his views on some of the topics in the market in *UK Pension Risk Transfer Market Posts Another Stellar Year*.

The higher interest rate environment of the past few years has had the impact of supporting activity in asset intensive life reinsurance transactions, in which the buyer onboards both the liabilities, which carry biometric/longevity risk, and the assets backing them. *Greg Winterton* spoke to **Prannoy Chaudhury**, Principal and Consulting Actuary at **Milliman** and **Brian T. Casey**, Partner at **Troutman Pepper Locke**, to get their thoughts on how busy this market can get in *Activity in Asset Intensive Life Reinsurance Solutions to Remain Healthy.*

The prognosis for metastatic melanoma has improved dramatically in recent years with the introduction of immunotherapy and targeted therapy. **Dr Rahul Nawander**, Medical Director at **Fasano Underwriting**, explains more in *Advancing Frontiers in Metastatic Melanoma: Innovations, Treatments, and Improved Survival Outcomes*, a guest article.

Last month, **Roger Lawrence**, Managing Director at **WL Consulting**, penned his first of three articles dissecting the 2024 edition of the ACLI's Life Insurer's Fact Book, and this month he returns with *US Life Insurer Ownership, Size, and Solvency Trends Remains Consistent*, our second guest article this month.

The life settlement market, like many other alternative assets, has had to navigate its fair share of challenges in the past few years. *Greg Winterton* caught up with **Ryan McTernan**, Senior Managing Director at **Fifth Season Investments**, to get his take on the state of the space as we begin 2025 in this month's *Q&A*.

When all is said and done, 2024 could end up delivering aggregate premium at or close to the US PRT market's current banner year of 2022, where $51.9bn worth of deals was written in the space. *Greg Winterton* spoke to **George Palms**, President at **LGRA** and **Erik Pickett**, Actuary and Chief Content Officer at **Club Vita** for their thoughts on the space as we begin 2025 in *US Pension Risk Transfer Market To Continue Bull Run in 2025 – and Beyond*.

As always, I hope you enjoy the latest issue of Life Risk News and wish you every success for 2025.

New Report Provides Both Food for Thought and Positive Reinforcement for Life Settlement Market

Author:
Greg Winterton
Contributing Editor
Life Risk News

The life settlement industry regularly touts the lack of correlation to public equity and liquid fixed income markets and diversification benefits as two of the reasons why institutional, end investors should consider allocating capital to the asset class.

Historically, however, that view has not had the benefit of being data-backed at the aggregate level – until now.

Unlocking Value: Insights into Life Settlements Investment Trends is a new report from industry group the European Life Settlement Association (ELSA) and insurance asset management firm Conning.

The report surveyed 156 investors and market participants between August and December last year, and according to the survey results, portfolio diversification (83%) and lack of correlation to broader markets (79%) were the top two positive aspects of a firm's attitude towards life settlements.

That these two reasons came top of the list for survey respondents should not be a surprise, however.

> **"Asset managers in the life settlement market have been promoting the lack of correlation benefit that our asset class offers to investors for many years, and rightly so, because the drivers of returns in this market are not related to the finance sector. There are not many asset classes that offer a genuine lack of correlation, and those that can offer this benefit are becoming increasingly attractive to sophisticated investors"**
> **- Hanna Persson, Ress Capital**

"Asset managers in the life settlement market have been promoting the lack of correlation benefit that our asset class offers to investors for many years, and rightly so, because the drivers of returns in this market are not related to the finance sector. There are not many asset classes that offer a genuine lack of correlation, and those that can offer this benefit are becoming increasingly attractive to sophisticated investors," said Hanna Persson, Head of Sales at Ress Capital.

Survey respondents also liked the potential for high returns (76%) and the ease of identifying risks (71%) as positive aspects of the asset class.

Further encouragement for life settlement types can be found in the future plans of capital allocators. A total of 29% said that they are 'currently invested and looking to increase investment' and 22% said that they are 'currently invested and looking to maintain investment'. Only 7% said they were 'currently invested and looking to decrease investment'.

Alongside identifying some of the traits of the asset class that investors like, the report also identifies some notable obstacles that must be addressed if the industry is to grow.

The life settlement market has been accused in the past of being somewhat opaque, with little publicly available data for investors to get an idea of the true size of the market or benchmark their managers to any kind of life settlement-specific index. Both of these objections feature in the report, with 40% of survey respondents looking for more historical returns data before they would consider investing.

But the number one request from investors when asked what they would need to invest is more education (45%). In recent years, both the industry at large and individual companies and people have been preaching the good word about life settlements; industry groups ELSA and the Life Insurance Settlement Association (LISA) have been more active in terms of producing educational content, and plenty of newsletters and podcasts have been launched by market participants which, collectively, rise the tide.

Still, there is plenty more work to be done.

"The observation about education is not a surprise to me and it is indeed critical to the future growth of our industry. The inner workings of our market, and the drivers of returns, are more complex than some other asset classes, so there is plenty that we still need to do, individually and collectively, to advance the general level of knowledge about life settlements among the capital allocator community," said Chris Conway, Chief Development Officer at ISC Services.

The survey covers a range of other topics, including the expected target returns for the asset class (and over what time horizon), the extent to which a firm might be looking to increase or decrease its allocation to life settlements, the type of structures that they invested in (closed-ended, open-ended, proprietary, synthetic), how they view life settlements within a broader asset allocation model, what other asset classes the firm is invested in, and more.

> **“The observation about education is not a surprise to me and it is indeed critical to the future growth of our industry. The inner workings of our market, and the drivers of returns, are more complex than some other asset classes, so there is plenty that we still need to do, individually and collectively, to advance the general level of knowledge about life settlements among the capital allocator community”**
> **- Chris Conway, ISC Services**

Unlocking Value: Insights into Life Settlements Investment Trends is the first survey of its kind to be produced in the life settlement market, so it is not yet possible to extrapolate any trends in investor activity in or sentiment towards the asset class. So, what exactly is the takeaway here?

For Chris Wells, Executive Director at ELSA, the benefits of having actual data to back up the anecdotal evidence, both good and less so, is the foundation that the industry needs to shape its efforts in the coming years.

“This inaugural survey has provided our membership, and the industry at large, with genuine, primary research-based data which we can use to steer our efforts as both an organisation and industry going forward,” he said.

“Whilst there is clearly plenty of work to do, I’m also encouraged by the positive experiences from those once they participate in the asset class. Our industry provides many benefits not only to investors, but also to consumers, and it is terrific to see that much of the positivity that we promote is reinforced in this survey.”

UK Pension Risk Transfer Market Posts Another Stellar Year

Author:
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The UK's pension risk transfer (PRT) market had a busy year in 2024, continuing the theme of the past few years. While the total aggregate value of the market last year will not be known for a few weeks, back in September, Legal & General predicted one in excess of £40bn, which would rank among the largest years for bulk purchase annuity deals in the country.

Kunal Sood, Managing Director of Defined Benefit Solutions at Standard Life, expected the total value of completed deals in 2024 to come in at around £45bn and added that many of the trends which emerged in 2024 will continue into 2025, in particular, increasing levels of scheme funding.

"Levels remained strong over the year, with many schemes closer to buy-in or buy-out than anticipated, allowing them to consider locking in these surpluses," he said.

Stronger scheme funding levels meant the return of bumper deals. Standard Life noted that in 2024 transactions over £1bn became almost the norm with eight publicly announced to date compared to six during the previous year.

> **"The market has shown its maturity and significant capacity to support demand, enabling even the largest pension schemes in the UK to secure their liabilities using buy-ins and buy-outs"**
> **- Kunal Sood, Standard Life**

"The market has shown its maturity and significant capacity to support demand, enabling even the largest pension schemes in the UK to secure their liabilities using buy-ins and buy-outs," he said.

The year 2024 saw government-led regulatory changes, including the introduction of the DB funding code in July. Additionally, funded reinsurance came under the spotlight and the Prudential Regulation Authority (PRA) released its Supervisory Statement, the fall-out of which will in 2025 see the launch of the next industry-wide 'stress test' which is expected to test these exposures as well as insurers' resilience.

Other notable market developments in 2024 were the official entry of new insurers into the market. Royal London and Utmost both wrote bulk purchase annuity (BPA) transactions, and in July the former announced its first external transaction, securing a £30m full scheme buy-in with an unnamed sponsor, followed by a further £100m transaction with another external pension scheme in September.

Also last year saw Clara-Pensions, the UK's only active DB superfund, ink further business in March with Debenhams and then again in December with the £210m Wates Pension Fund. Sood said that DB superfund activity is likely to pick up.

"Given the potential for pooling of assets and greater economies of scale, superfunds could be attractive particularly for schemes with weak sponsors and no realistic prospect of buying out in the insurance market," he said.

However, schemes in a strong funding position will still be looking for an eventual buy-out.

"With many schemes now in a funding surplus, buy-out remains the gold standard when it comes to securing members' benefits, particularly in a volatile economic climate," Sood added.

Looking ahead to 2025, the PRT market in the UK also looks likely to embrace the trend for insurers to give scheme members' access to independent financial advisers (IFAs) at retirement.

In its annual *Member Options and Support* survey published in July, Aon asked six of the leading insurance participants for their views on member options and support. The key findings were that one insurer is making IFA advice available to all annuitants, while a further two insurers are actively looking at their offering; the remaining three are not proactively looking but would consider continuing with an existing IFA for larger schemes; most insurers are planning or already have some digital capabilities for member self-service; and 50 percent of insurers would consider making additional options (such as BPO) at retirement available for a scheme of any size.

"Historically, bulk annuity insurers have not provided IFA support or additional options after buyout – but that's changing. It's great that insurers are recognising their responsibilities to members and adopting similar approaches to those followed by schemes. But it is still early days and to continue driving this change we believe that trustees and sponsors should be engaging with insurers at an early stage to signal the importance they place on addressing the underserved members and giving them the best possible support," said Kelly Hurren, Partner and Head of Member Options and Support at Aon.

Positivity among market participants appears to be carrying over into the new year. Almost half of those who took part in a survey conducted by the Pension Insurance Corporation (PIC) said they expected the bulk annuity market to reach between £50bn and £60bn in 2025.

> **"As the results of our polling show, the bulk annuity market is now firmly established as a £50bn a year market"**
> **- Mitul Magudia, PIC**

"As the results of our polling show, the bulk annuity market is now firmly established as a £50bn a year market," said Mitul Magudia, Chief Origination Officer at PIC.

"It's worth noting that the market volume size range reflects the uncertainty about the timing of larger scheme transactions. One or two of these transactions in a year will likely push the market up to £60bn."

Activity in Asset Intensive Life Reinsurance Solutions to Remain Healthy

Author:
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The higher interest rate environment of the past few years has had the impact of supporting activity in asset intensive life reinsurance transactions, in which the buyer onboards both the liabilities, which carry biometric/longevity risk, and the assets backing them.

These deals – not to be confused with the primary pension risk transfer market, which, while an asset-intensive transaction, is not a reinsurance one – have been, and still are, something of a 'win-win', as the life insurer gets what it wants: the ability to offload certain blocks of either life insurance policies or annuities for balance sheet management purposes, and so does the buyer, as higher interest rates provide a wider spread over the liabilities, which are largely fixed when the transaction is completed.

The bulk of the activity in this market relates to legacy-strained blocks of business, for two reasons.

> **"First, the original insurance companies often seek to de-risk from certain policies that have not performed well due to a misalignment of original pricing assumptions versus actual experience and second, these legacy blocks, such as universal life policies or high guarantee deferred annuities, are asset-intensive and attract interest from various asset managers"**
> **- Prannoy Chaudhury, Milliman**

"First, the originating insurance companies often seek to de-risk from certain policies that have not performed well due to a misalignment of original pricing assumptions versus actual experience," said Prannoy Chaudhury, Principal and Consulting Actuary at Milliman.

"Second, these legacy blocks, such as universal life policies or high guarantee deferred annuities, are asset-intensive and attract interest from various asset managers," he added.

The US is the market that delivers the bulk of activity in the space. Part of the reason is that the regulatory framework for life insurance in the US is, while robust, is arguably less onerous than that of Solvency II in the EU, or the newly-finalised Solvency UK regime.

But another reason is because annuities are much more common stateside than in Europe, for example. In mid-February last year, the Association of British Insurers published data suggesting that annuity sales in the UK in 2023 totalled £5.2bn.

In contrast, US industry group the Life Insurance Marketing and Research Association (LIMRA) published data at the end of January last year that showed total annuity sales in the USA of $385bn in 2023.

That does not mean that, like the life settlement market, for example, this is a US-only industry.

"The future growth of this market is difficult to speculate on, however, it is worth noting that trends in legacy strained blocks of business are not limited to the US," said Chaudhury.

"There is growing interest in other parts of the world, such as Europe and Asia, with notable activity in markets like Germany and Japan, indicating a potential for broader market expansion beyond its current niche."

Indeed, Japan has delivered some activity in this market, with two transactions in 2024 involving Reinsurance Group of America entering into a deal with Japan Post Insurance Company to reinsure a Y700bn block of in-force annuities in March and Pacific Life Re and Anshin Life partnering on a deal covering in-force, whole of life policies in May.

Asset-intensive life reinsurance deals are large, complex, and the process from idea generation to deal completion is lengthy. Therefore, activity in the space is accounted for by larger firms that have both the people resources and, in the case of traditional reinsurers, balance sheet size, and in the case of asset manager-backed reinsurers – many of which got their start in private equity before evolving into multi-asset class firms - access to large, sophisticated investors to support these transactions.

However, that does not mean that future activity in the market will be limited to these mega-deals. Indeed, the asset-intensive life reinsurance space might see the emergence of a lower to middle market in the coming years.

"It is hard to say how much annuity or life insurance business insurers will exit, but I see these deals happening on smaller scales with smaller life/annuity companies in the next three years," said Brian T. Casey, Partner at law firm Troutman Pepper Locke.

> **"It is hard to say how much annuity or life insurance business insurers will exit, but I see these deals happening on smaller scales with smaller life/annuity companies in the next three years"**
> **- Brian T. Casey, Troutman Pepper Locke**

Until then, the upper end of the market – which is currently the only end of the market – will continue to deliver almost all of the activity in this market. And, despite the recent cuts to the US federal funds rate – which, other things being equal, impact demand for asset-intensive life reinsurance transactions because the spread between asset and liability performance narrows somewhat – the coming years should deliver a similar, if not slightly higher, level of activity generally.

"It is not clear where the interest rate environment will settle, but the baseline interest rate environment is higher than what we saw for around the decade prior to 2022," said Chaudhury.

"That should alleviate some of the existing interest rate spread compression in previously issued blocks of business, as well as continue to keep insurance savings products attractive to new customers."

Life ILS Conference 2025

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Life Risk News

Advancing Frontiers in Metastatic Melanoma: Innovations, Treatments, and Improved Survival Outcomes

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> "Approximately 85–90% of melanomas are diagnosed at a localized stage, with 70% being superficial spreading melanomas. For localized melanoma, prognosis is excellent, with survival rates comparable to the general population"

Melanoma of the skin (cutaneous melanoma) is a malignant tumor originating from melanocytes, the skin cells responsible for producing melanin. While primarily occurring in the skin, melanoma can also arise in the eyes, ears, meninges, gastrointestinal tract, and mucosal surfaces such as the oral, genital, nasal, and sinus membranes. Cutaneous melanoma accounts for over 90% of all melanomas and is commonly observed in white populations[1].

The incidence of all skin cancers, including melanoma and non-melanoma skin cancers (NMSCs), has increased significantly in recent decades, outpacing many other cancers. This rise may partly reflect overdiagnosis due to more frequent skin screenings, biopsies, and the histopathological overcalling of melanocytic lesions that might otherwise remain benign[2]. Between 1982 and 2011, melanoma incidence rates doubled to quadrupled among individuals of European heritage[3]. According to the Centers for Disease Control and Prevention (CDC), the overall melanoma incidence rate in the US between 2017 and 2021 was 21.8 per 100,000 people, with the highest rates among non-hispanic white males (34.9 per 100,000) and the lowest among black females (0.9 per 100,000)[4].

The common subtypes of cutaneous melanoma include[5]:

- Superficial spreading melanoma (70%)
- Nodular melanoma (15–30%)
- Lentigo maligna melanoma (10–15%)
- Acral lentiginous melanoma (<5%)

Rare variants include amelanotic melanoma, spitzoid melanoma, desmoplastic melanoma, and pigment-synthesizing melanoma (also known as animal-type melanoma).

Melanoma staging, detailed in the AJCC Cancer Staging Manual, Eighth Edition, provides a critical framework for diagnosis and prognosis. Simplified, the stages are as follows:

- Stage 0: Melanoma in situ, confined to the top layer of skin.
- Stage 1: Cancer localized to the skin without lymphatic or distant spread.
- Stage 2: Cancer remains confined to the skin but with higher risk features.
- Stage 3: Cancer has spread to regional lymph nodes.
- Stage 4: Metastatic melanoma, where cancer has spread to distant sites such as the brain, liver, or lungs.

Approximately 85–90% of melanomas are diagnosed at a localized stage, with 70% being superficial spreading melanomas. For localized melanoma, prognosis is excellent, with survival rates comparable to the general population. A SEER database study[6] analyzing nearly 100,000 US patients found no significant difference in life expectancy between individuals with localized melanoma and the general population. However, metastatic melanoma presents a starkly different outlook due to its aggressive nature and historically poor survival rates.

Treatment

Melanoma treatment varies by stage. Stages 0–3 melanomas are primarily managed with surgery, while Stage 4 metastatic melanoma requires systemic therapies like immunotherapy, targeted therapy, chemotherapy, radiation, or combination of these therapies. Surgery is typically not used in Stage 4 metastatic disease, as systemic therapies are more effective in managing widespread disease.

Before 2011, chemotherapy was the primary systemic treatment, with dacarbazine being the only FDA-approved drug. However, since 2011, immunotherapy has revolutionized melanoma treatment, significantly improving survival rates. Melanoma was the first malignancy to benefit from immune checkpoint inhibitors (ICIs), which target checkpoint proteins such as CTLA-4, PD-1, PD-L1, and LAG-3. These proteins, expressed on T-cells, are exploited by cancer cells to evade immune responses. ICIs restore the anti-tumor activity of T-cells, enabling a sustained immune response. The FDA-approved ICIs for melanoma include:

"Before 2011, chemotherapy was the primary systemic treatment, with dacarbazine being the only FDA-approved drug. However, since 2011, immunotherapy has revolutionized melanoma treatment, significantly improving survival rates"

1. Ipilimumab (CTLA-4 antagonist)
2. Nivolumab and pembrolizumab (PD-1 antagonists)
3. Atezolizumab (PD-L1 antagonist)
4. Relatlimab-rmbw (LAG-3 antagonist, approved in 2022).

Another recent advancement is talimogene laherparepvec (T-VEC or Imlygic®), an oncolytic virus therapy for advanced melanoma. T-VEC is a genetically modified herpes simplex virus designed to selectively infect and kill melanoma cells while stimulating both local and systemic immune responses.

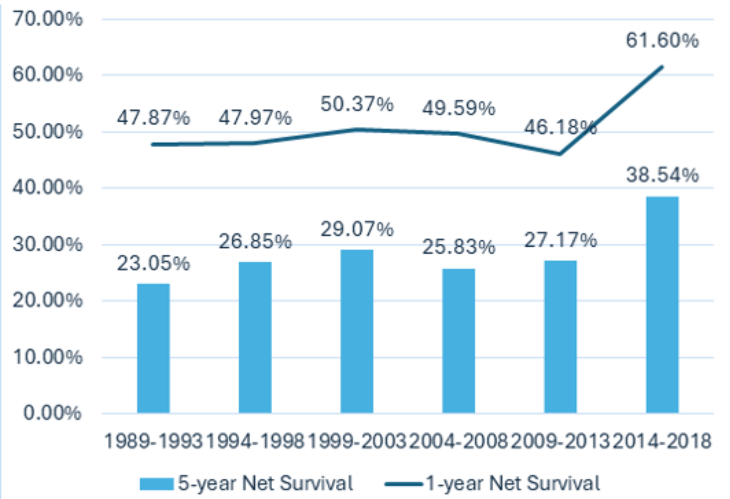
Targeted therapy addresses the high prevalence of genetic mutations in melanoma, particularly in the BRAF, NRAS, and NF1 genes. By inhibiting these mutations, targeted therapies effectively halt tumor growth.

Prognosis & Survival

The prognosis for metastatic melanoma has improved dramatically with the introduction of immunotherapy and targeted therapy. A 2018 Canadian study[7] observed significant differences in two-year survival rates depending on the treatment modality: 6–17% for chemotherapy, 24–26% for targeted therapy, and 60–62% for immunotherapy. Among ICIs, PD-1 antagonists (nivolumab and pembrolizumab) showed the greatest survival benefit, followed by CTLA-4 antagonists (ipilimumab).

A 2022 Danish study[8] of 1,500 metastatic melanoma patients reported a 16% increase in 1-year survival and a 7% increase in five-year survival between 2009–2013 and 2014–2018, see figure 1, below, underscoring the transformative impact of modern treatments.

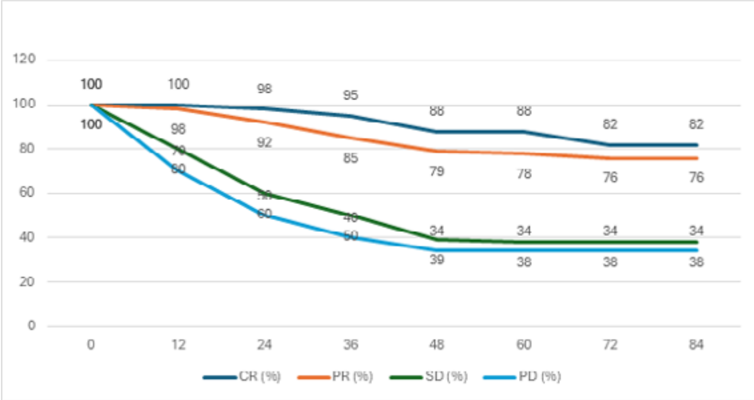
Figure 1: Metastatic Melanoma 1-year and 5-year net survival 1989-2018, Denmark



Recent studies[9] have noted a fourfold improvement in median survival with immunotherapy, increasing from 18 months in 2018 to 72 months in 2022. Among patients achieving a complete response (no detectable disease at both the primary and metastatic sites), the five-year survival rate was 86-89% (see Figure 2 below). Approximately 70-75% of patients eligible for immunotherapy achieve a complete response.

"The outlook for metastatic melanoma continues to improve, driven by advancements in therapeutic strategies and ongoing research. Innovative approaches under exploration include combining multiple immune checkpoint inhibitors (ICIs), integrating immunotherapy with targeted therapies, utilizing these treatments as neoadjuvant options, and extending the use of immunotherapy to non-metastatic melanoma"

Figure 2: Overall survival by best response in metastatic melanoma treated with combination of ipilimumab and nivolumab



OS = overall survival, CR = complete response, PR = partial response, SD = stable disease, PD = progressive disease.

Long-term benefits of immunotherapy persist even after treatment discontinuation. A 2021 study [10] found that 73-76% of patients who discontinued immunotherapy after a median treatment duration of 15.2 months (range: 0.7-42 months) maintained a complete response, with four-year survival rates of 92–94%. For those achieving a partial response (no disease at primary location and stable disease at metastatic sites), four-year survival rates were 80–82%[10, 11].

When compared to targeted therapy, patients responding to immunotherapy have 1.5-fold better survival rates[10].

Outlook

The outlook for metastatic melanoma continues to improve, driven by advancements in therapeutic strategies and ongoing research. Innovative approaches under exploration include combining multiple immune checkpoint inhibitors (ICIs), integrating immunotherapy with targeted therapies, utilizing these treatments as neoadjuvant options, and extending the use of immunotherapy to non-metastatic melanoma to enhance survival outcomes further. Currently, more than 322 clinical trials in the United States are dedicated to advancing melanoma treatments options.

Dr. Rahul Nawander is Medical Director at Fasano Underwriting

Footnotes

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US Life Insurer Ownership, Size, and Solvency Trends Remains Consistent

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In early November last year, industry group the American Council of Life Insurers (ACLI) published its annual Life Insurers Fact Book, the organisation's deep dive into a range of sub-categories of the US life insurance industry. In December, we looked at 2023's developments in surrenders, new business and solvency; this month, as was the case last year, we're taking a look at the US life insurance market as a whole: Its health; size and outlook.

Ownership Trends

Last year, we observed that around 14% of US life Insurers were foreign owned. This has been a slowly developing trend over the last two decades, but over that time the geographical composition of overseas owners had changed markedly, with mainland European owners diminishing in numbers and being replaced by parent companies domiciled in tax havens, notably Bermuda. In 2023, that largely remained the picture, with overseas ownership remaining at 14% and the only notable change being a tiny reduction in the Bermudan component (24 falling to 22) with the Cayman ownership rising by one from nine to 10.

As we observed last month, the most notable change in the insurance company landscape is not just the ownership make-up but that the number of companies are continuing to shrink. It's slow, but seemingly inexorable.

Table 1: Number of US Life Insurers, 2001 - 2023

Year	Stock	Mutual	Fraternal	Other	Total
2001	986	222	117	16	1341
2011	687	117	85	6	895
2022	538	110	69	10	727
2023	532	110	67	10	719
Change 2001 to 2023	-46%	-50%	-43%	-38%	-46%

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

Clearly, the number of firms has fallen and there are some seemingly logical reasons why this may have been so, namely increasing levels of regulation and the reducing viability for small firms to continue without a merger.

For non-stock companies specifically, limited or expensive access to capital ought to be a reason for demutualisation but in fact, the figures don't really bear this out. There has been a slightly ahead-of-trend reduction in the number of mutuals, but the change is not vastly different to the reduction in stock companies. The conclusion one would draw is that the decline in numbers of firms is primarily down to rationalisation and cost reduction across the board rather than an increasing need for new capital.

"There has been a slightly ahead-of-trend reduction in the number of mutuals, but the change is not vastly different to the reduction in stock companies. The conclusion one would draw is that the decline in numbers of firms is primarily down to rationalisation and cost reduction across the board rather than an increasing need for new capital"

Business Composition

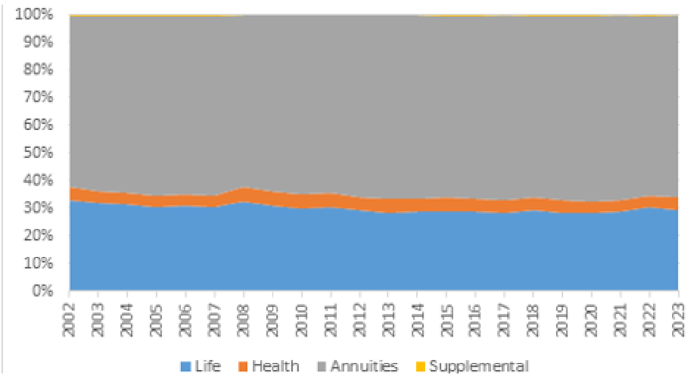
Last month, I observed that whilst there was an overall growth in individual life insurance policy liabilities of 1.6%, we didn't highlight that, for all life insurance business including group business, the overall change was also similar, at 1.7%.

This contrasts with the growth of overall company liabilities of 5.7%, suggesting that another part of the business book, namely annuities, is growing much faster. The health insurance business book is a steadily growing product line but is still much smaller than the other two.

The faster growth of all liabilities does not in itself indicate that the size of the annuity book is growing faster than the life insurance book, but the relative proportions of new business between the two business streams is certainly one factor. The relative increase in reserves could simply be down to the use of a lower discount rate which can increase the value of one type of liabilities more than the other.

Certainly, annuity liabilities with longer outstanding durations can be very sensitive to yields on long bonds but bond yields did not drop between the start and end of 2023. Due to the low granularity of the ACLI data it is hard to work out whether all of this reserve growth is down to yield changes, but instinctively it is probably not, and that the extra growth in reserves is almost certainly due to a faster rate of net new annuity business compared to life insurance.

Figure 1: Composition of US Life Insurance (by value of liabilities), 2002 - 2023



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

The update of this chart above, which we published last year, shows a slight broadening of the annuity component, but it is fairly hard to detect by eye. Annuity business is continuing to dominate the life insurance market, but life insurance is certainly not going away.

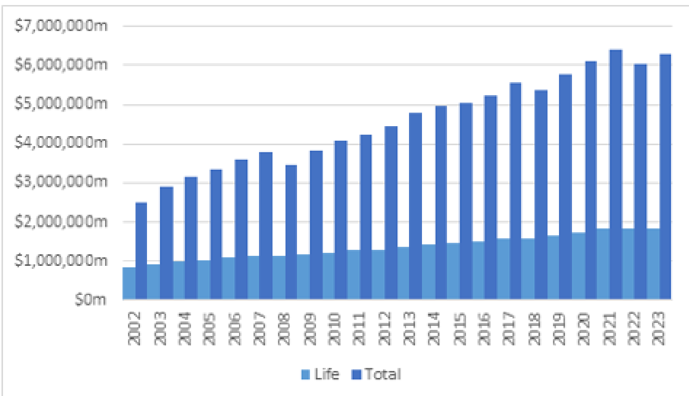
The almost insignificant supplemental business is primarily add-ons, such as waiver of premium cover and other sickness benefits.

"From 2021 to 2022, policy liabilities fell, largely as a result of a rise in bond yields increasing valuation discount rates. The step up in 2023 from 2022 in total liabilities looks very similar to that observed from 2020 to 2021, although this change arose from additional business rather than a change in the valuation discount rate"

US Life Insurance Market Size (by Liabilities)

An update of the chart below offers greater clarity. From 2021 to 2022, policy liabilities fell, largely as a result of a rise in bond yields increasing valuation discount rates. The step up in 2023 from 2022 in total liabilities looks very similar to that observed from 2020 to 2021, although this change arose from additional business rather than a change in the valuation discount rate as discussed above.

Figure 2: US Life Insurer Liabilities, 2002 - 2023



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

Growth in reserves for the life insurance component alone has plateaued. Part of the reason is the technical effect described above, whereby higher discount rates suppressed reserve growth in 2022, but they have not grown notably in 2023 either. This, despite having used a similar reserving discount rate in both of 2022 and 2023, is confirmed by the modest growth rate of 1.7% in reserves.

Is this a sign that fewer people are buying life insurance, or are becoming under-insured? Are household finances becoming sufficiently stretched that people are prepared to run uninsured risks for their family that they would otherwise not have done before? Would people have used life insurance products primarily as savings vehicles, which just conveniently came with integrated life cover, and have now lost the savings habit?

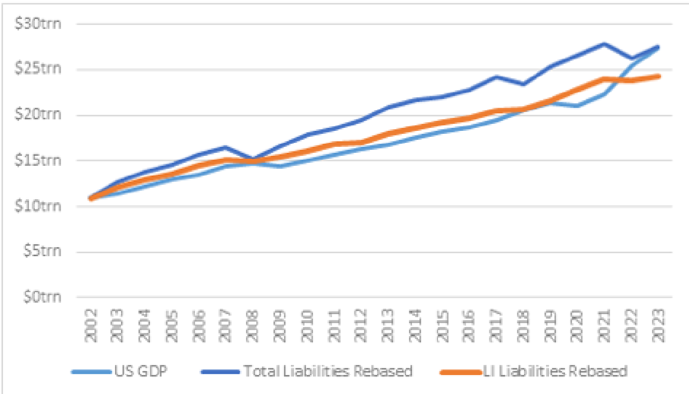
Possibly, but it is more likely to be a mere interregnum driven by temporary (one would hope) financial pressures. Group life policies have grown a little faster than individual policies and, as they tend to be for the lower income end of the market, low paid workers may be allowing group policies to provide them with some protection, even if they should really be topping this up with some additional cover of their own. These are all plausible reasons for the slow down.

> "Other than the financial stress of the inflationary period, and some short-term demographic changes, there are no clear structural reasons why demand for life cover should not follow the trajectory of the economy in general"

A structural change to the marketplace, on the other hand, is more difficult to determine. It is possible that strong population migration is adding to the low-paid workforce, but not necessarily to the higher paid; but in time, this may rebalance and as newcomers move up the income scales, so should their need for more cover. Other than the financial stress of the inflationary period, and some short-term demographic changes, there are no clear structural reasons why demand for life cover should not follow the trajectory of the economy in general.

Figure 3 below shows the continuing strong correlation between US life insurance cover and US GDP growth.

Figure 3: US Life Insurer Liabilities (rebased 2002) vs US GDP Growth, 2002 - 2023



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

The dark blue line represents all policy liabilities and whilst it is tracking GDP closely, it is clear there has been a divergence in recent years, before a re-convergence in 2023. The orange line represents the growth in life insurance policies alone and here there has been considerably more correlation with US GDP, with any signs of detachment only coming at the point of the onset of Covid-19.

This should not be a surprise; a heavy application of quantitative easing in 2020 and 2021 (to tide over costs from the pandemic) would have potentially inflated liabilities in those years by depressing interest and therefore valuation discount rates, but since 2021 there has been some flatlining as we have discussed previously.

The divergence in between the dark blue line and US GDP is clearly the stead effect of rising levels of annuity business. The US experienced a slightly less marked and less enduring bulge in the rate of births after the Second World War than, say, the UK or Germany, but there was still a significant baby boom effect, both after a loss of many lives and also from the rapid rise in post war earnings.

This 'boomer bulge' is now reappearing en masse; not as births, but as retirements, driving the growth in the annuity market. This also combines with a significant switch from defined benefit (DB) to defined contribution (DC) funding mechanisms; in the US, the Pension Protection Act (PPA) of 2006 brought this about by making deficit funding by companies more difficult whereas in the UK, for example, a tax change, increasing the tax on equity dividends, was the driver of the sounding of the death knell. Equally, in both jurisdictions, falling bond yields and rising life expectancies were also making DB pensions more expensive to finance., so inevitably, almost in parallel, DB schemes closed and are now providing a boom in pension risk transfer activity.

"At some point in the medium term, this surge in annuity business will likely slow down again, but the effect of this huge bulge in policy liabilities will continue to persist on insurers balance sheets for much longer than that"

At some point in the medium term, this surge in annuity business will likely slow down again, but the effect of this huge bulge in policy liabilities will continue to persist on insurers balance sheets for much longer than that.

There was a highly unusual change in the composition of annuity business with individual new net contributions up 46.3% balanced with a reduction in group contributions of –36.6% but the overall change from 2022 to 2023 was just 2.9%. This may have been part of the risk transfer effect, but it is far too large a change in a single year for this to be the only explanation and other commentators have suggested that people were trading their level annuities from company schemes for index-linked annuities arranged individually. It certainly makes sense after a year in which inflation at 9% or so will have severely eroded the purchasing power of a level annuity.

Last year, I observed that the continued tracking of the US economy by the country's life insurance market was a reassuring sign. Whilst there has been a slowdown in life policy sales in the past two to three years relative to the size of the economy, that benchmark is not a perfect one; the economy-boosting borrowing and spending policies of the Biden administration have been confined to very specific sectors, such as green energy projects which on the one hand boosts GDP, but on the other has likely not trickled down to the wider masses (who might deploy some of these extra riches into new insurance policies).

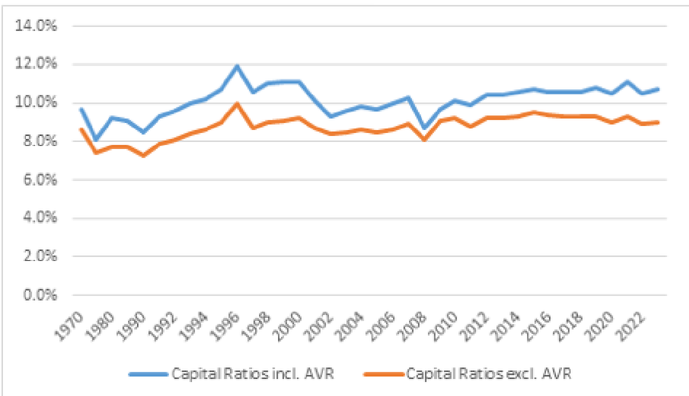
Solvency

The health of life insurers is of vital importance to secondary investors as well as giving confidence to individuals wanting to buy new policies for protection and needing their insurer to be there when the fateful moment arrives.

Here, the ACLI Fact Books provide a historic record of aggregate solvency levels for the industry. Solvency can be measured in numerous ways, with different measures of 'surplus' capital and different benchmarks to compare against. The simplest are insurers' capital ratios, with the Asset Valuation Reserve (AVR) - which smooths against temporarily depressed market values of assets -either included or excluded. These ratios are insurers' own capital and surplus and are divided by their general account reserves.

Figure 4 below shows a picture of continuing financial heath and even a modest improvement from 2022 to 2023.

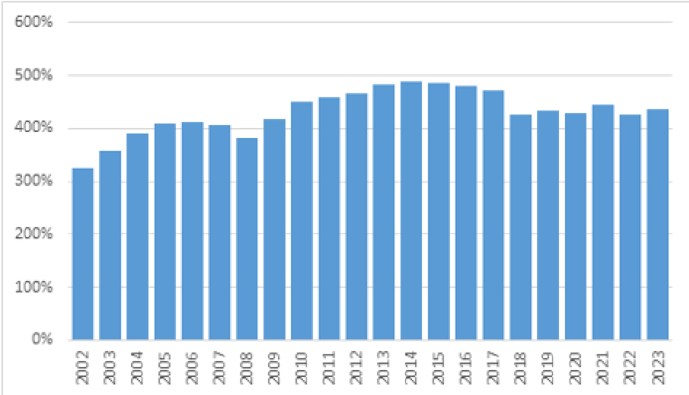
Figure 4: US Life Insurer Broad Capital Ratios, 1970 - 2023



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

Perhaps a more meaningful ratio is one which might tell you if insurers are on the verge of triggering some sort of regulatory intervention, such as a cessation of new business or a full wind-down. Regulators prescribe a mechanism for determining what they consider the minimum capital for an insurer to be able to operate safely and breaching this is usually that trigger, so measuring the actual available capital against that regulatory minimum (the Risk Based Capital Ratio or RBC Ratio), gives the stakeholder a view on how likely a breach may occur. This comparison has the added advantage in that regulatory capital calculations will flex with economic conditions so at times of asset stress or buoyancy the capital requirement will flex with the assets – to an extent.

Figure 5: US Life Insurer RBC Ratios, 2002 – 2023

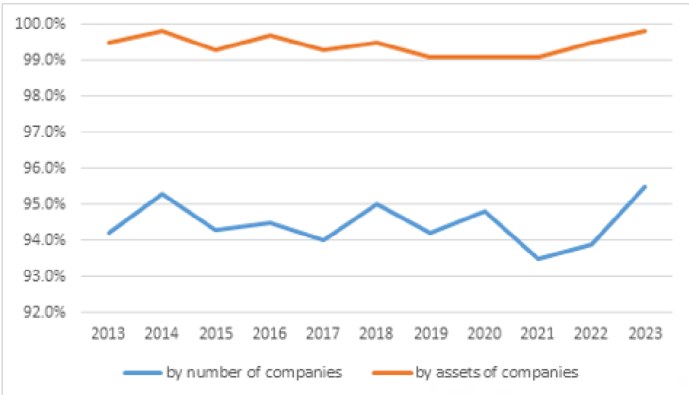


Source: ACLI Life Insurer's Fact Book, 2024 Edition

Both charts show a degree of ebb and flow over the years, but both also show a slight improvement in 2023.

The shortcoming of using averages is that they hide spread. However, the ACLI Fact Book does provide a distribution of insurers' RBC ratios.

Figure 6: Percentage of US Life Insurers Whose RBC Ratio Exceeds 200%, 2013 - 2023



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

The number of companies below 200% is 32 and, as can be seen by the much smaller percentage below 200% measured by assets, these are generally the much smaller institutions. Of that 32, there are five falling below 100%. This does not make them insolvent, but financially fragile, however they are likely to be special companies with unusual characteristics and are unlikely to be of significant concern to secondary investors.

As was the case last year, the overall message here is one of consistency. US life insurer ownership and business composition trends remains at similar levels to recent years, albeit with small, but observable, trends. And solvency metrics appear to be solid. All in all, as counterparties for longevity and mortality risk investors, US life insurers remain strong.

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Roger Lawrence is Managing Director at WL Consulting

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

Q&A

Ryan McTernan
Senior Managing Director, Fifth Season Investments

Author:
Greg Winterton
Contributing Editor
Life Risk News

The life settlement market, like many other alternative assets, has had to navigate its fair share of challenges in the past few years. Greg Winterton caught up with Ryan McTernan, Senior Managing Director at Fifth Season Investments, to get his take on the state of the space as we begin 2025.

GW: Ryan, starting with something of a retrospective. What would you say have been the main challenges that the life settlement market generally has had to face in the past couple of years, and how successful has it been in navigating them?

RM: A couple of challenges come to mind. The first is that we are seeing some investors using life expectancies (LEs) that, in our opinion, are too short, which for us, causes our bids to be less competitive. Unfortunately, I don't think that there is a quick solution to this, but our opinion is that, over time, these LE companies, and investors relying on them, would be weeded out.

The second is the PHL Variable Rehabilitation. Thankfully, and by design, we have limited exposure to PHL, however anytime a carrier has issues paying a claim it's a huge negative for the industry. It raises the question of whether there are other lower grade carriers we should be concerned about.

GW: A question about interest rates. The last few months has seen the Fed cut rates for the first time since the spring of 2020. What's your view on the outlook for interest rates this year and how much impact do you think they have on the life settlement market?

RM: I'd prefer not to comment on the direction of interest rates but I do feel that there is a correlation between the Fed and discount rates we see in the life settlement market. This correlation is not one to one and the life settlement market has a lag, which I would attribute to the time it takes to raise capital and having that capital committed. If the Fed continues to cut, then it's likely that, in a year from now, firms like ours will be buying at a lower discount rate.

I'd also add that I wouldn't list rates as a major challenge. There was a period when our investors were expecting higher returns, and life settlements were lagging other markets, but since that time we've been able to deploy capital at higher returns than we were pre increases. The LS market hasn't increased on par with rates elsewhere, but we have been seeing more attractive opportunities. I understand others may disagree as it's harder to raise capital, debt costs have increased and it's possible they had to take write downs on a mark to market basis, but I view it as a net positive.

GW: Moving onto Fifth Season specifically. The firm, in its current form, is a little over two years old. What have been some of the positives, and what have been some of the challenges for Fifth Season since the acquisition by Owl Rock subsidiaries?

RM: The biggest positive is their commitment to the asset class, meaning they are willing to commit material dollars and resources to funding us and helping us grow. We've had a significant increase in dollars deployed over the past two years, clearly that's a direct result of our relationship with Owl.

The biggest challenge, which I would say turned out to be positive, was our growth. We went from a team of less than 10, the majority of which have been together for five or more years, to now 24 employees over two years. The people who have joined have added significant value to our company and investment thesis, but obviously there are growing pains when expanding rapidly.

GW: A recent report published by ELSA and Conning suggests that diversification and a lack of correlation to liquid assets are the main two reasons for allocating to the space. What's your view here?

RM: I agree that most investors are here because of the limited correlation to other assets, but that's not to say this asset is completely uncorrelated to the broader economy.

As I mentioned earlier, over the past year or so, we have been able to deploy capital at marginally better returns than we were pre-rate increases. That's great for us, but that also means the investors selling now are selling for less than they would have several years ago. So, they clearly took an impairment, that was directly related to rate changes.

GW: Finally, Ryan, looking ahead: What's your message to investors who are looking at adjusting their portfolios in the next few years now that rates are falling? Why life settlements?

RM: We're always excited to hear about reputable institutional investors interested in the asset class. This is a great asset for investors with long dated investments horizons, but it is not necessarily meant for groups with short term liquidity requirements. One of the countless issues with GWG, for example, was their short-term liquidity needs and another situation like that is the last thing we want for this industry.

US Pension Risk Transfer Market To Continue Bull Run in 2025 – and Beyond

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Greg Winterton
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Life Risk News

When all is said and done, 2024 could end up delivering aggregate premium at or close to the US pension risk transfer (PRT) market's current banner year of 2022, where $51.9bn worth of deals was written in the space.

That is according to the November edition of Legal and General Retirement America (LGRA)'s *Pension Risk Transfer Monitor*, a quarterly report the firm publishes that tracks activity in the market. A total of $14bn of deals were completed in the third quarter of this year alone, with IBM's $6bn deal with Prudential a notable transaction.

On both sides of the Atlantic, the media coverage of the space tends to relate to the aggregate size of the market in dollars or sterling, but it isn't a case of a handful mega deals exaggerating the size of the market; indeed, there is plenty of activity across all scheme sizes to keep pension scheme and insurance actuaries busy.

> **"Insurers are now commonly using multiple factors simultaneously to capture differences in mortality rates at the individual member level, and those not using such models run the risk of adverse selection" - Erik Pickett, Club Vita**

"In 2023, around 800 PRT contracts were signed," said George Palms, President at LGRA.

"And this year, there has also been an upward trend in PRT transactions between $500 and $999m. From what we have seen, the total amount of premium in the $500m-$1bn space is around $9bn in total, compared to $6bn in 2023. There has been plenty of growth in the middle-to-large market in the US this year."

When interest rates began to rise two years or so ago, there was talk in the UK that some smaller schemes might get crowded out of the market due to the bigger deals taking precedence. In terms of human capital, the ratio of effort expended to deal size to complete a smaller transaction is higher than it is for a larger deal, but that concern has not materialised.

The smaller end of the market is similarly healthy stateside, albeit, for different reasons.

"It is important to point out that in the US, there are around 20 insurers in the market, and they all have different appetites for deals in different segments. You may see a deal where the total value is below $100m and you will have over eight bidders on that transaction. That's not uncommon," said Palms.

Success in the PRT market relies heavily on accurate mortality modelling, and the US market has seen positive developments in this area that are supporting the recent growth.

"We've noticed a growing sophistication in mortality modeling in the US PRT market, with the majority of insurers now using multi-factor models in their baseline assumptions to capture the predictive power of factors such as ZIP+4, collar type, benefit amount and gender. Insurers are now commonly using multiple factors simultaneously to capture differences in mortality rates at the individual member level, and those not using such models run the risk of adverse selection," said Erik Pickett, Actuary and Chief Content Officer at Club Vita.

"We've also seen a growing focus on mortality improvement assumptions as insurers face the uncertainty of the long-term impact of the Covid-19 pandemic. This is the area of greatest divergence in mortality assumption setting, although there does seem to be an increasing consensus to reflect higher expected mortality improvements in the defined benefit pensioner population over the general population," he added.

Additionally, Pickett observed that, similar to the UK market, there is a strong focus on data quality stateside.

"With a greater dependency on data to set mortality assumptions, the value of complete clean data from pension plans looking to transact is high. When this is unavailable it is common for insurers to add extra margin to deals to cover the uncertainty introduced," he said.

A big news story this year in the US market was the Department of Labor's report to Congress published in June reviewing the Employee Benefits Security Administration's Interpretive Bulletin 95-1 (IB95-1).

IB95-1 was originally written in 1995, and essentially determines the type of transactions completed in the market – full scheme buy-outs, as opposed to the more common buy-in transactions seen in the UK market, due to the ‘safest annuity available’ clause in the regulation.

“Buy-ins are more difficult to complete in the US because of the safest available annuity clause in IB95-1. An insurer may be the safest available at inception, but then in two or three years, they may not be any longer,” said Palms.

“But there are maybe a dozen buy-ins a year, although they are used in specialised situations like a plan termination. They are used to lock in the cost of the transaction to the plan sponsor up front and then the move from buy-in to buy-out happens in less than a year when consummating the termination of the plan.”

Those plan sponsors that are looking to do a deal had better act fast. Americans are famous – infamous? – for working long hours, and Palms said that there could well be a deal completed between Christmas and New Year last year, when most Europeans would have been...not working. Additionally, in the US, their financial and tax year ends on December 31st, so there is plenty of activity during the festive period to close out the year-end as strongly as possible.

> **“In the next five years, I’d expect the market to eclipse the current high of $51.9bn and I wouldn’t be surprised if the new high-water mark will be $100bn. The market will step up to a new level”**
> **- George Palms, LGRA**

But the first quarter of the calendar year tends to be less busy, and benefits are on offer for those ready to begin the process earlier in the year.

“Historically in the US, one piece of advice I would have to a plan sponsor is if you have a transaction, bring it in Q1. Volume is typically lower in Q1, but insurers are eager to start writing business. It’s a good time to transact, with a lot of participation. Schemes can get a more favourable PRT premium than they can in the fourth quarter, when things are much busier. Insurers may become more selective which can lead to fewer bidders in the fourth quarter.”

Whether plan sponsors come to market in the first quarter of 2025, or the fourth quarter, will not make much of a difference to the macro picture, however, which is robust, to say the least – and should stay that way.

Consultants Milliman publish the *Milliman 100 Pension Funding Index*, which shows the firm’s view of the funded status of the 100 largest corporate defined benefit pension plans in the US. The November 2024 edition suggests that the funded ratio jumped to 103.4%, from 102.5% at the end of September, and the funded status surplus increased to $43bn.

While the Milliman Index has only been in surplus in recent years, schemes tend to lock in their funded status via hedging tools. Add to that the sheer size of the market in the US - the runway is long – very long – and the market should continue to hit new highs in the coming years.

“In the United States, there are more than $3trn in defined benefit pension liabilities and only about 10% of that has been de-risked so far. The steady march up in terms of taking liabilities off balance sheets will continue due to secular trends around de-risking and strong funding levels,” said Palms.

“In the next five years, I’d expect the market to eclipse the current high of $51.9bn and I wouldn’t be surprised if the new high-water mark will be $100bn. The market will step up to a new level.”

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