Life Risk News

Volume 4
Issue 04
April 2025

Life Insurer Credit Risk Again in the News but Life Settlement Market Keeps On Keeping On

Life Risk News
ISSN 2753-7374
Volume 4, Issue 04
April 2025

Publisher
ELSA
97 Fable
261c City Road
London EC1V 1AP

+44 (0) 203 490 0271
admin@elsa-sls.org

© 2025 European Life Settlement Association

Editorial
Managing Editor
Chris Wells
chris@elsa-sls.org

Contributing Editor
Mark McCord
mark@liferisk.news

Contributing Editor
Greg Winterton
greg@liferisk.news

Editorial Assistant
Emilie Horne
emilie@liferisk.news

Editorial Enquiries
editor@liferisk.news

Design & Layout
Kieran Reilly
hello@kieranreilly.com

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

04 Life Insurer Credit Risk Again in the News but Life Settlement Market Keeps On Keeping On
Greg Winterton, Contributing Editor, **Life Risk News**

06 Capital-Backed Journey Plans Re-Enter Defined Benefit Pension De-Risking Debate as New Rules Loom
Mark McCord, Contributing Editor, **Life Risk News**

08 Understanding the Impact of Covid-19 on Future Mortality Remains an Almost Impossible Task
Greg Winterton, Contributing Editor, **Life Risk News**

10 Canadian Pension Risk Transfer Market Set To Establish Higher Floor as Aggregate Deal Value Surges
Greg Winterton, Contributing Editor, **Life Risk News**

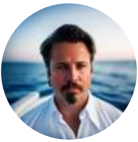
13 Could Climate Change Cause the Buy-In Market To Collapse?
Claire Jones, Partner and Head of Responsible Investment, **Lane, Clark & Peacock**

16 ICS vs Solvency II: Comparing Risk Corrections for Illiquid Liabilities
Craig Turnbull, Partner, and Head of Regulatory Advisory, and **Amit Lad**, Principal, Insurance and Longevity Consulting, **Barnett Waddingham**

22 Q&A: Martin Kramer, Managing Partner, Ceptar Consulting
Greg Winterton, Contributing Editor, **Life Risk News**

24 Are Recent Asset Manager-Owned Life Insurance Consolidator Divestments a Sign of Waning Interest?
Greg Winterton, Contributing Editor, **Life Risk News**

Editor's Letter, Volume 4, Issue 04, April 2025



Chris Wells
Managing Editor
Life Risk News

March delivered not one, not two, but three notable announcements relating to life insurer credit risk, and while a large part of this content – or, rather, criticism - has been related to asset managers buying or partnering with insurance companies in the US pension risk transfer market, this impacts the life settlement market as well. *Greg Winterton* gathered thoughts and views from **Helen Andersen**, Industry Analyst at **AM Best** and **Adam Meltzer**, Managing Partner at **Apex Capital Partners** for *Life Insurer Credit Risk Again in the News but Life Settlement Market Keeps On Keeping On*.

In 2020 the first capital-backed journey plan (CBJP) was completed, ushering a new way of transferring risk from the books of defined benefit schemes but as interest rates rose and schemes found themselves edging closer to full funding, CBJPs fell off the radar. *Mark McCord* spoke to **Matthew Cooper**, Head of Pension Risk Transfer at **PwC UK** and **Ian Wright**, Technical Director at **Arc Pension Law** to find out whether and why we could see a CBJP resurrection in *Capital-Backed Journey Plans Re-Enter Defined Benefit Pension De-Risking Debate as New Rules Loom*.

It has been a little more than five years since most of the world began locking-down in an attempt to slow the spread of Covid-19 and reduce the burden on health systems and many are still trying to understand the potential future impact of the disease. *Greg Winterton* spoke to **S. Jay Olshansky**, Co-Founder and Chief Scientist at **Lapetus Solutions**, to see why he thinks this is challenging in *Understanding the Impact of Covid-19 on Future Mortality Remains an Almost Impossible Task*.

Aggregate deal value in the Canadian pension risk transfer (PRT) market set a new record in 2024, according to a new report from consultants WTW. CAD$11bn worth of deals transacted last year, comfortably beating the previous record of CAD$7.8bn, which was set in both 2022 and 2023. *Greg Winterton* spoke to **Marco Dickner**, Canadian Retirement Risk Management Leader at **WTW**, to find out whether this growth is sustainable in *Canadian Pension Risk Transfer Market Set To Establish Higher Floor as Aggregate Deal Value Surges*.

Given the importance of systemic risks such as climate change in determining the long-term stability of the insurance regime, insurers' climate change approach should be considered as part of the scheme trustee's selection process in the bulk purchase annuity market, says **Claire Jones**, Partner and Head of Responsible Investment at **Lane, Clark & Peacock** in *Could Climate Change Cause the Buy-In Market To Collapse?*, a guest article this month.

The International Capital Standard, finalised by the International Association of Insurance Supervisors in December 2024, marks a new chapter for Internationally Active Insurance Groups. While the UK's five IAIGs may find ICS implementation largely uneventful — given its less demanding capital framework compared to Solvency II (SII) — certain ICS rules offer fresh insights. **Craig Turnbull**, Partner, and **Amit Lad**, Principal at **Barnett Waddingham**, provide those insights in *ICS vs Solvency II: Comparing Risk Corrections for Illiquid Liabilities*, our second guest article.

The life settlement industry's tertiary market is an opaque one, with many of the transactions being conducted on an over-the-counter, bilateral basis. *Greg Winterton* caught up with **Martin Kramer**, Managing Partner at **Ceptar Consulting**, to find out what's been happening in this part of the life settlement world for this month's *Q&A*.

Two recent sales of life insurance consolidators by alternative asset managers made headlines but despite the space being mature, other options exist for investment firms keen to get a slice of the life insurance pie. *Greg Winterton* brings together perspectives from **Jason Hopper**, Associate Director, Industry Research and Analytics at **AM Best**, **Robert Lytle**, Senior Managing Director at **Stax** and **Arik Rashkes**, Partner and Head of Financial Institutions at **Solomon Partners** in *Are Recent Asset Manager-Owned Life Insurance Consolidator Divestments a Sign of Waning Interest?*

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

Life Insurer Credit Risk Again in the News but Life Settlement Market Keeps On Keeping On

Author:
Greg Winterton
Contributing Editor
Life Risk News

Those in the US life insurance industry, and its associated markets, might be forgiven for experiencing some level of credit risk fatigue, such has been the volume of articles and content produced in the past year or so related to this topic.

A large part of this content – or, rather, criticism – has been related to asset managers buying or partnering with insurance companies in the US pension risk transfer market; the argument being that some of these firms are securing the benefits of American retirees with riskier, private assets, which goes against the requirement for plan sponsor trustees to select the 'safest annuity available' when choosing a de-risking provider, which in turn is impacted in part by its credit risk/ rating.

But March delivered not one, not two, but three notable announcements relating to life insurer credit risk. First up, on 13th March, was ratings agency AM Best, which published a press release saying that there were more downgrades than upgrades in the US life and health insurance industry last year.

> **"Most US L/A insurers benefited from consistent profitability, bolstered by favorable interest rates, strong capitalization, and top-line growth in most of their core lines of business. But they must contend with the potential for further interest rate cuts, increased use of higher risk assets, and the ongoing drag of legacy liabilities"**
> **- Helen Andersen, AM Best**

"Most US L/A insurers benefited from consistent profitability, bolstered by favorable interest rates, strong capitalization, and top-line growth in most of their core lines of business," said Helen Andersen, Industry Analyst at AM Best.

"But they must contend with the potential for further interest rate cuts, increased use of higher risk assets, and the ongoing drag of legacy liabilities."

Then six days later, supranational agency the International Association of Insurance Supervisors (IAIS) published a draft Issues Paper on structural shifts in the life insurance sector for consultation which referenced credit risk.

Finally, on 21st March, the US Federal Reserve was at it with Life Insurers' Role in the Intermediation Chain of Public and Private Credit to Risky Firms, a note that referenced the intersection of life insurers and collateralized debt obligations, concluding that, "Life insurers' exposure to below-investment-grade firm debt has boomed and now exceeds the industry's exposure to subprime residential mortgage-backed securities in late 2007".

Credit risk in the life settlement market is the risk that the insurance companies issuing the life insurance policies owned by a life settlement investor are unable or unwilling to meet the death benefit payments of the insured lives as they fall due. It is one of the main investment risks that life settlement asset managers need to be cognisant of when analysing life settlement policies for purchase.

While the recent noise has mainly focused on the credit investments made by life insurers, capital allocators who might be considering adding life settlements exposure to their alternative investment portfolios might be forgiven for putting two and two together raising an eyebrow here. But a closer look at the data should provide some level of comfort.

Asset management firm Conning's research division publishes an annual report that analyses the life settlement market and the most recent edition, published in November last year, contains a table showing a list of insurance companies and the aggregate cash value each insurer is on the hook for in the market. The firm with the largest share, Massachusetts Mutual Life Ins. Co., was responsible for just 4.2% of the overall market exposure.

The data suggests that life settlement asset managers have plenty of options for diversification at the carrier level.

"The data speaks for itself," said Adam Meltzer, Managing Partner at Apex Capital Partners.

"There are many different life insurers that we see in the life settlement market, and diversifying by carrier is absolutely an established practice for prudent portfolio construction in our industry."

There were ten carriers with two per cent or more of market exposure last year, collectively accounting for 34% of overall market exposure. But the credit ratings of these firms are generally solid, something which leads life settlement bulls to argue that this supports the view that life insurers in the US are actually a strong risk counterparty for the life settlement market.

"The credit ratings of US life insurers are strong. These companies are heavily regulated, well capitalised and well run. It is actually a benefit to our market that life insurers are a risk counterparty – there are numerous asset classes where the counterparty is not nearly as robust as the ones we have in the life settlement market"
- Adam Meltzer, Apex Capital Partners

"The credit ratings of US life insurers are strong. These companies are heavily regulated, well capitalised and well run. It is actually a benefit to our market that life insurers are a risk counterparty – there are numerous asset classes where the counterparty is not nearly as robust as the ones we have in the life settlement market," added Meltzer.

All the recent noise aside, carrier risk is something that the life settlement market has actually been ahead of the recent news on.

In May last year, when PHL Variable Life Insurance Company was put into rehabilitation by the Connecticut Insurance Department, life settlement asset managers holding PHL policies in their portfolios saw a marked decline in value down to $300,000 as Connecticut Commissioner Andrew Mais capped the payout until further notice, which, at the time of publishing, remains the case.

Jane Callanan, General Counsel for the Connecticut Insurance Department, told InsuranceNewsNet at the end of last year that: "The Rehabilitator continues to expect to present to the court the key terms of a rehabilitation plan by mid-2025. A complete plan of rehabilitation would be filed thereafter, with the plan confirmation process likely in late 2025".

PHL's woes go back many years, and some asset managers had removed their exposure to PHL before the rehabilitation order was served. While the life settlement market in aggregate is waiting to see the exact details of the rehabilitation plan, a significant chunk of the interest is to understand the potential impact at the industry level as opposed to the downside (or upside) to their PHL exposure.

And it might not be as bad as it could have been: In the InsuranceNewsNet article, when asked about potential Cost of Insurance increases, Callanan said that: "There are no current plans to pursue such an increase at this time".

Whatever is next in what could be described as something of a zeitgeist in life insurer credit risk, industry insiders insist that the overall picture remains strong.

"Life settlement fund managers tend to diversify their portfolio in a myriad of ways – age, gender, life expectancy, state and carrier being just some of the considerations in the space," said Meltzer.

"While there has recently been lots of talk about credit risk generally, it's something that the industry has been managing and mitigating for two decades and diversifying by carrier will be a pillar of portfolio construction for the next 20 years."

Life ILS Conference 2025
TUESDAY 20TH MAY 2025
LONDON, UK
Life Risk News

Capital-Backed Journey Plans Re-Enter Defined Benefit Pension De-Risking Debate as New Rules Loom

Author:
Mark McCord
Contributing Editor
Life Risk News

In 2020 the first capital-backed journey plan (CBJP) was completed, ushering a new way of transferring risk from the books of defined benefit schemes.

The emergence of a de-risking structure underwritten by a third-party capital provider offered a means of improving scheme funding levels at a time when a large proportion of those in the UK were in deficit and the prospects of reaching buy-out or other financial targets looked dim.

Two years later, however, as interest rates rose and schemes found themselves edging closer to full funding, CBJPs fell off the radar: the maiden deal remains the only one publicly announced, although there has been talk of others being struck in secret.

Fast forward to today and the pensions landscape has changed again, with new surplus access rules in play that could resuscitate the CPJB.

> “I am seeing a lot more corporates and trustee boards properly examining whether they should be running on for a time to build and access surplus instead of looking to buy out in the short-term”
> - Matthew Cooper, PwC UK

“I am seeing a lot more corporates and trustee boards properly examining whether they should be running on for a time to build and access surplus instead of looking to buy out in the short-term,” said Matthew Cooper, Head of Pension Risk Transfer at PwC UK.

“A number of the capital-backed funding arrangements evolving their offerings to support pension schemes in running on to generate surplus.”

With just one deal struck, it’s impossible to speak of a typical CBJP. However, the 2020 contract provides a foundational framework for future contracts.

That deal saw an unnamed provider agree to allocate capital to invest along with the scheme’s own assets in a more aggressive manner than the scheme’s own investment strategy. The transaction was entered into to accelerate the time to buy-out, for which a target level of funding and completion date were set.

Under the CBJP model, and unlike other similar models, the sponsor remained attached to the scheme and trustees maintained control throughout.

There are several benefits to a capital provider in such a contract. As well as their own capital, the provider gets to harness the firepower of the scheme’s assets to seek higher returns than would have been likely under the risk profile that trustees are willing to tolerate. Any excesses over the target could then be pocketed by the provider as profit.

Also, because such deals aren’t covered by the Prudential Regulation Authority, they are easier to close. As well, the defined maturity of the contract and the clear exit strategy is seen as attractive to additional potential capital providers.

Trustees benefit from the higher degree of certainty CBJP’s bring to achieving their scheme’s financial objectives and also by shifting the investment risk to the capital provider, whose contribution would be the “first loss” absorber in the event of market losses.

While the only publicised deal was written to bring the scheme’s funding to a level that would support a buy-out, similar contracts could be used to achieve other financial targets, says Ian Wright, Technical Director at Arc Pension Law.

“These structures are a bridge, as it were, because what they’re really doing is putting some capital underneath the scheme to enable it to do something more aggressive than it otherwise would be able to do, so that it can go faster, quicker to somewhere,” Wright said.

One of the possible “somewheres”, he suggested, is surplus expansion. And this is where a window of opportunity may be opening again for CBJPs.

The UK has said it is considering rules to loosen access to surpluses in a bid to liberate more capital for invested in the British economy. This would make a run-on attractive to sponsors and may also benefit members if part of those extracted surpluses were ploughed back into the scheme.

“The world has changed and it may be that people will now look at them [CBJPs] differently,” says Wright.

Cooper agrees.

"Driven by higher funding levels and the prospect of changes in legislation, there is a lot more discussion around how pension scheme surpluses might be accessed," he said.

"The addition of third-party capital to support an investment strategy designed to generate surplus may be attractive to trustees in terms of providing greater downside protection, albeit the provider will be looking for a share of any future upside."

While underfunded schemes are seen as the most likely candidates to use CBJPs, the structures could become attractive to healthier schemes under a new surplus regime.

"Rather than being something you do because you're uncomfortable, it might just be a sensible thing to do as part of a long-term journey plan to get you there a bit quicker and give you more wiggle room," Wright said.

As attractive as they might become, there remains likely resistance to CBJPs' adoption.

Both Cooper and Wright suggested that the immaturity and novelty of the structures could work against them. The pensions market is inherently conservative and averse to trying anything that's new and untested. A sudden surge of interest in CBJPs is therefore unlikely even if the Treasury does decide to make early surplus releases easier.

> **"Capital-backed funding arrangements are new, complex and will require considerable due diligence from trustees and sponsors in order for them to get comfortable to enter into such arrangements"**
> **- Ian Wright, Arc Pension Law**

"Capital-backed funding arrangements are new, complex and will require considerable due diligence from trustees and sponsors in order for them to get comfortable to enter into such arrangements," says Cooper.

Trustees may also look uncharitably to one of the key elements of the structures: that some or all of the returns above those targeted in the contract would go straight to the capital provider. Trustees may argue that a well-managed scheme could also accrue better returns without ceding any of the upside.

Wright is less convinced by such an argument.

Providers are saying "for a period, we will do something ourselves that you couldn't do, but from your perspective we'll do what you were going to do anyway with more certainty and if we manage to do better, well, that's good for us", he said.

"That's the whole point of providers entering into these sort of transactions: you're still not losing something, because you could never have done what we will actually do on your own, anyway. And I think that's the sweet spot for this sort of structure – if you look at it in that way, it can be for some schemes a bit of a no brainer."

It's likely that new providers will be eyeing the market whatever the decision of the Chancellor of the Exchequer. Cooper suggests that private equity fund managers would see an "alignment of interest" in the structuring of CBJPs and the ease of putting them together away from the gaze of the PRA. Hedge funds have also been mentioned as likely contenders.

Both would benefit additionally by being able to direct some of the invested capital into their own funds, giving them a return through the management charge and any investment upside.

One other contestant looms on the horizon – insurance companies. They are already active in the industry as the buyers of pension risk-transfer deals and putting capital to work within a CBJP would not require a huge step outside of their core competencies.

Their involvement would also put them in an advantageous position to advise and back the scheme on any future buy-out plans. Further, as Wright explains, that would put them close enough to the trustees to ensure they have their data and legal estates in order to expedite an eventual wind down.

As the industry awaits the next move by the Chancellor, Cooper says trustees and advisers are carefully considering multiple de-risking avenues, pointing to the success of superfunds as indicative of a thirst in the market for alternative funding structures.

"If trustees are looking at those, I think they will look a bit broader and look at these capital-backed structures as well," he says.

Understanding the Impact of Covid-19 on Future Mortality Remains an Almost Impossible Task

Author:
Greg Winterton
Contributing Editor
Life Risk News

It has been a little more than five years since most of the world began locking down in an attempt to slow the spread of Covid-19 and reduce the burden on health systems.

The lockdowns had a mixed impact on the alternative investment industry. On the positive side, the heightened market volatility and low-interest rate environment of 2020 and 2021 drove institutional investors to seek out higher-yielding, less correlated assets, boosting demand for alternatives such as private equity, hedge funds, and infrastructure. However, on the negative side, lockdown-related disruptions significantly hampered deal-making and due diligence, particularly in private markets where face-to-face interaction and on-site visits were critical.

> “Even though someone might have died of something unrelated, they had Covid-19 on the death certificate in some cases, which would mean an overestimation of Covid mortality. But on the other hand, some deaths in nursing homes early on were likely caused by Covid, but they were never measured or identified, which would mean an underestimation of Covid mortality. Both of these examples show the difficulty in estimating the impact”
> - S. Jay Olshansky, Lapetus Solutions

And the longevity and mortality markets, by their very nature, were significantly impacted by Covid-19. Markets such as life settlements and pension risk transfer, that carry exposure to an older cohort of individuals which were those most impacted by the disease, scrambled to try and understand the short and long-term implications of the pandemic on their businesses.

Those still trying to understand any potential future impact are conducting an exercise in futility, according to S. Jay Olshansky, Co-Founder and Chief Scientist at Lapetus.

“There are so many variables that influenced – and still influence - the actual impact of Covid. The presence of the disease led to a series of changes in the administration of public health that led to an elevated chance of death, like people not being able to get into a hospital because they were inundated with Covid patients. Cancer maintenance or detection, for example, was delayed, leading to higher mortality from causes of death not related to Covid – treatment delayed by three months could have led to a death that otherwise might have been avoidable,” he said.

“That essentially created two sets of conditions – direct and indirect. And we can’t measure accurately the direct deaths because we can’t trust the data due to the way that Covid was required to be coded on the death certificate. Even though someone might have died of something unrelated, they had Covid-19 on the death certificate in some cases, which would mean an overestimation of Covid mortality. But on the other hand, some deaths in nursing homes early on were likely caused by Covid, but they were never measured or identified, which would mean an underestimation of Covid mortality. Both of these examples show the difficulty in estimating the impact,” he said.

A generally accepted approximation of the overall impact of Covid-19 is found in excess deaths. In the US, excess deaths in early January 2021 reached a significantly higher 46.6% of the expected, with a similar level observed in January 2022 (41.1%).

The UK has given up trying to model Covid specifically and is now focusing on excess deaths. In March 2024, the Office for Health Improvement and Disparities published a new version of its mortality report, which “will not measure the impact of the Covid-19 pandemic on mortality, but will instead measure the level of excess mortality given that the pandemic has occurred.”

This is as good a measure as is available, according to Olshansky, but he adds that this is not necessarily helpful to those trying to understand the impact in future.

“The number of deaths that occur is actually very predictable on a month-to-month basis based on population size. We have a pretty good idea of the total number of deaths each month, so looking at excess mortality is the only statistic I trust when trying to measure the impact of Covid,” he said.

“But that doesn’t mean that this helps going forward. I can’t predict it because I can’t measure it because I can’t trust the data. We can’t say that

someone who has Covid or had Covid will live longer or shorter. It's like telling me that they have had influenza. Join the club – almost everyone has had Covid. It's background noise now. We don't adjust LEs based on a covid diagnosis."

While excess mortality was indeed high between 2020 and 2023, it has now largely levelled off. Excess deaths in the USA hit 0.0% in September 2023; in England, excess deaths have been negative in each month since July 2023.

So, why are we still talking about Covid-19? And what is the takeaway for the longevity and mortality markets?

"Everyone's still talking about it because it's still fresh in our memory, relatively speaking. It was such a trauma - for the rest of our lives people will talk about it as if it just happened because it impacted many generations. So, we're not going to stop talking about it," said Olshansky.

> **"Could Covid evolve in a negative direction tomorrow? Sure. Could it move in a positive one? Sure. But you can't make mortality assumptions based on that"**
> **- S. Jay Olshansky, Lapetus Solutions**

"And it's obviously still here. Could Covid evolve in a negative direction tomorrow? Sure. Could it move in a positive one? Sure. But you can't make mortality assumptions based on that."

Canadian Pension Risk Transfer Market Set To Establish Higher Floor as Aggregate Deal Value Surges

Author:
Greg Winterton
Contributing Editor
Life Risk News

Aggregate deal value in the Canadian pension risk transfer (PRT) market set a new record in 2024, according to a new report from consultants WTW. CAD$11bn worth of deals transacted last year, comfortably beating the previous record of CAD$7.8bn, which was set in both 2022 and 2023.

A couple of notable deals contributed significantly to the new record. In October 2024, IBM Canada Ltd. completed a CAD $1.5bn buy-out transaction for 6,000 plan members with Blumont Annuity and RBC Insurance, and in February last year, the Ford of Canada Retirement Pension Plan Number 3 announced a group annuity buy-out transaction of CAD $923 million for over 2,700 members with RBC Insurance, Sun Life and Desjardins Group.

While large deals such as these can distort the overall picture in terms of the growth of the market, activity also set a new record.

> **"What is of note is the number of transactions in the market overall increased to around 130, which is again a new record for the Canadian market"**
> **- Marco Dickner, WTW**

"The four largest transactions completed by WTW accounted for CAD $4.2bn of the market, but what is also of note is the number of transactions in the market overall increased to around 130, which is again a new record for the Canadian market," said Marco Dickner, Canadian Retirement Risk Management Leader at WTW.

Something notable about the IBM and Ford deals is that more than one insurer was involved in each transaction, a feature rarely, if ever, seen in the UK or US markets. While it might seem counterintuitive, slicing up the pie this way results in a better price for the pension scheme because if one insurer were to take on the whole deal, it may need to price it higher due to capacity constraints, regulatory capital management or risk diversification reasons. For the plan sponsor, however, the process is still a smooth one.

"There is usually a lead insurer which takes the first slice of the deal. Then the others are secondary insurers. Firms like ours figure out the options for the plan sponsor and ask the insurers to price on those options but we want a uniform treatment for retirees, so the insurers pay each other in the background. There may be more than one insurer, but the scheme itself deals with one. The second insurers are essentially doing a buy-in of the main insurer," said Dickner.

Concentration risk might look, to an outsider, as much more of a potential issue in Canada. WTW's report says that just six insurers – Sun Life, Blumont Annuity, IA Financial Group, BMO Insurance, RBC Insurance and Desjardins Insurance – account for 99% of the entire market.

Compare that with the US, which has approximately 20 insurers, and the UK, which is now up to 11 insurers with the recent entries of Blumont Annuity and Utmost in the first quarter of this year, and you might be forgiven for being uncomfortable with the risk.

But that's what reinsurers are there for, right? Well, not quite. Canadian life insurers are generally well-capitalised and highly regulated, with strong risk management practices, so they may feel comfortable holding more longevity and investment risk on their own balance sheets rather than paying for reinsurance. The capital framework under Canada's Life Insurance Capital Adequacy Test (LICAT) is already designed to ensure insurers hold sufficient reserves. Reinsuring some of the risk might not provide a significant enough capital relief benefit to justify the cost, and, to date, reinsurers have therefore played a significantly smaller role in the Canadian PRT market than they do in the UK or US, for example.

That could be about to change, however.

"We're having more conversations with reinsurers now who are looking to enter this market. By doing so, this will naturally increase capacity as the insurers themselves will be de-risking to a greater extent," said Dickner.

Pricing might need to adjust going forward, however. As with other countries, actuaries have arguably never been busier in Canada in the aftermath of the Covid-19 pandemic. A report published a year ago by the Canadian Institute of Actuaries (CIA), based on research carried out by Ad Res Advanced Reinsurance Services GmbH in collaboration with Koblenz University of Applied Sciences between 2021 and 2023, suggests that mortality improvement among

Canadians was higher than previously thought. Longevity analytics provider Club Vita's Michael Reid, Head of Pensions, North America, said in an article that: "Most plan sponsors will likely be most concerned with the impact of the new MI scales on plan liabilities. For plan sponsors using CPM-B, pensioner liabilities would be expected to increase between 1.5% and 3.5% for men and 1.5% and 2.5% for females."

"Only 15% of the available de-risking market in Canada has transacted...so, 85% has not transacted. Canadian defined benefit pension plans are generally well funded – more than 80% of them are fully funded – so the pipeline is strong. While the next few years might not set a new record each year, on average over the next three years we would expect total dollars to stay above the CAD$ 10bn mark"
- Marco Dickner, WTW

Longer living equals more cost for the insurer, so the potential increase in involvement from the reinsurance market could provide support here. But other tailwinds exist to support the growth.

In April 2023, Canada enacted the Pension Protection Act (PPA), which has significant implications for the bulk purchase annuity market in the country. The PPA's introduction of super-priority status for pension deficits in insolvency proceedings has heightened the focus on pension plan funding and risk management. This legislative change, coupled with favourable annuity pricing due to higher interest rates, has led many plan sponsors to consider annuity purchases as a strategic move to mitigate pension-related risks.

From a certain point of view, the Canadian PRT market is already the world's most active. Canada's 130 or so transactions last year pales in comparison to the US market, which saw almost 800 deals in 2024, and the UK's, which delivered a smidge under 300 buy-in deals alone, But, adjusted for population, the Canadian market sees much more activity.

And all of these recent developments, along with the already strong funding position of many Canadian private defined benefit pension plans, all point towards a 'new normal' of eleven-figure aggregate deal value in the coming years.

"Only 15% of the available de-risking market in Canada has transacted so far," said Dickner.

"So, 85% has not transacted. Canadian defined benefit pension plans are generally well funded – more than 80% of them are fully funded – so the pipeline is strong. While the next few years might not set a new record each year, on average over the next three years we would expect total dollars to stay above the CAD$ 10bn mark."

Life ILS Conference 2025

TUESDAY 20TH MAY 2025

LONDON, UK

Could Climate Change Cause the Buy-In Market To Collapse?

Author:
Claire Jones
Partner and Head of Responsible Investment
Lane, Clark & Peacock

"Buying out a pension scheme is often seen as the safest way to ensure that members will get the benefits they are promised. As part of the solvency regime, insurers are required to hold plenty of assets to help cover high risk events. But what if these high-risk events posed by climate change become more and more frequent, and have wider-reaching and more devastating impacts? An insurer has to make assumptions to model what the likelihood and potential impacts of these high-risk scenarios could be"

We've been researching the environmental, social and governance (ESG) approaches of bulk annuity providers since 2019. Each time we update our research, we find that insurers' approaches have improved.

In 2019, we heard a lot about how insurers were considering ESG risks and opportunities within their assets.

In 2021, we heard more from the insurers on how they consider ESG risk within their liabilities.

In 2023, we focused more on how insurers are considering climate change as a systemic risk – one that is not just at risk of impacting their assets and liabilities, but at risk of damaging the solvency of the whole insurance regime.

In 2024, we continued with our focus on systemic risks and also heard from some new entrants to the market.

This focus on systemic risks may seem surprising and you may wonder why we did this, so I set out our reasons below. It starts with how climate change could impact pension schemes, the insurance regime and financial markets as a whole. In this blog, I look at what the insurers are doing to tackle climate change and also provide thoughts on what LCP, trustees and regulators can do to make these outcomes less likely.

What does three degrees of warming look like?

When we talk about climate change, we often use numbers to describe the average level of temperature warming of the world compared to pre-industrial levels. You'll hear the terms '1.5 degrees' or 'well below two degrees' come up a lot – this is what the global target is.

It's not what we are currently on track to achieve though – in fact, based on current policies, we are on track for around a three degree temperature rise. So, what does that actually look like?

To take one example, we could see around 74% of the world's population living in uninhabitable areas, because there would be more than 20 days a year of deadly heat.

74% of the population's current homes becoming uninhabitable could result in mass migration, a climate refugee crisis, social unrest and even war.

There may be additional pressure on food and water resources, which will already be under pressure due to crop failures, water scarcity, drought, transport and infrastructure challenges.

All of this does not make for a good stable financial environment either – we are likely to see the stability of markets being completely undermined, economies collapsing and GDP plummeting.

This may sound like an extreme outcome, but it's not – this report from the UN Environmental Programme indicates this is where we are currently heading – and given that this is likely to manifest over the next few decades, it is extremely relevant to the payment of members' benefits. The latest climate change conference, COP29, did not materially change this global climate outlook in our view.

How could climate change impact the insurance regime?

Buying out a pension scheme is often seen as the safest way to ensure that members will get the benefits they are promised. As part of the solvency regime, insurers are required to hold plenty of assets to help cover high-risk events.

But what if these high-risk events posed by climate change become more and more frequent, and have wider-reaching and more devastating impacts?

An insurer has to make assumptions to model what the likelihood and potential impacts of these high-risk scenarios could be.

Are the insurers' assumptions fully taking into account the risks of unmitigated climate change?

The answer is likely no – not least because these physical risks are very hard to model and capture. They tend to work in feedback loops, where if one planetary boundary is crossed, others are too, resulting in a compounding effect which comes back to seriously damage the economy and financial markets as whole. Some of the standard assumptions about how markets behave are likely to stop being true in these scenarios – so relying on modelling alone is a difficult way to fully capture the potential impacts of climate change.

So what happens in this scenario – what happens if the insurer's assets fall by more than the protection levels they had in place, and it therefore does not have enough capital to pay its beneficiaries?

Well, this is where the next stage of protection comes in – the Financial Services Compensation Scheme (FSCS). In short, if an insurer goes bust, the idea is that the FSCS will still provide its beneficiaries with the full compensation they have been promised – so pension scheme members will still get paid what they are owed.

This sounds great! There's no downside - so why should we care about climate change at all?

Let's dig a bit deeper into this.

The regime is broadly untested – we haven't seen any buy-in insurers fall into the position where they need to use this. However, if we are in a position where an insurer has gone bust, because it has underestimated the potential financial impacts of climate change, is this going to be a one-off case, that only affects one insurance firm?

I think that's unlikely. If one insurer is impacted in this way, it's very likely that other insurers will be in a similar position.

If several insurers go bust at the same time, against a backdrop of broader financial market crashes – how is the FSCS going to hold up? Is it really going to be able to pay the full benefits to all the policyholders and beneficiaries of all the insurance companies? If climate change goes unmitigated, are the protections provided by the insurance regime going to be enough - or could we see even these protections collapse?

I think these are the questions we need to be asking, as the realities of unmitigated climate change come to reality.

So what's the solution?

Do insurers need to be working more on their models to reflect the potential impacts and probabilities of unmitigated climate change scenarios?

My answer is no – or not just that. Yes, models can be improved, but there will always be limitations.

And the thing is, even if we do have models that capture the full likelihood of these downside scenarios – what do we do with them?

"To put it bluntly, in a set of scenarios that reflect a world with unmitigated climate change, the outcomes are going to look really bad. Can insurers actually hold enough capital to cover this? And what would this world mean for members' quality of life? Unmitigated climate change is likely to come with all sorts of knock-on impacts"

To put it bluntly, in a set of scenarios that reflect a world with unmitigated climate change, the outcomes are going to look really bad. Can insurers actually hold enough capital to cover this? And what would this world mean

for members' quality of life? Unmitigated climate change is likely to come with all sorts of knock-on impacts – financial markets crashing, mass migration, geopolitical conflict and more – I don't think any members really want to be living in this outcome set.

So I think the solution is not about modelling a terrible world. It's about changing the world itself, so we don't end up with these outcomes.

It's about insurers, and indeed everyone in the investment chain, using their influence to try and stop the world from getting to that dire position that scenario modelling may or may not be capturing.

We need to collectively change the global direction of travel so we don't end up in this dire situation where an insurance regime can't hold up, and our lives are in peril.

How do we do this - how can we use systemic stewardship to mitigate climate change?

Climate change risks are really big picture – they are systemic in nature and long term, which means they can't simply be diversified away from. Instead, action needs to be taken on a systems level, for example by changing the laws and regulations that govern how businesses operate, both within the financial sector and beyond.

Insurers are in a really good position to influence what happens, by engaging with regulators and policymakers about climate change, and we are seeing them take action already.

The nine insurers active in the UK buy-in market hold c £350bn of assets to back individual and bulk annuities, and this is only projected to grow. This means the insurers have a huge amount of influence between them to drive forward positive change. Insurers also generally have good relationships with policymakers and regulators, so can use their influence to drive forward positive change on a broader systemic level via these avenues too.

Indeed, our research found that the buy-in insurers are already starting to do this:

Most insurers are regularly responding to relevant consultations and publishing their responses

Some insurers are having bilateral discussions with policymakers and taking part in roundtables

Most insurers are in regular contact with regulatory bodies

Some insurers are proactively taking part and even leading regulatory working groups, such as those within the PRA's and FCA's Climate Financial Risk Forum.

It's not just about insurers though.

Trustees of pension schemes can also influence these outcomes, via the insurers they choose to work with. When trustees consider which insurer to transact with through a selection exercise, they are unlikely to pick an insurer that they think is at risk of going insolvent, or contributing to financial market instability – after all, this would undermine their duty to protect their members' benefits. Given the importance of systemic risks like climate change in determining the long-term stability of the insurance regime, insurers' climate change approach should be considered as part of this selection process. In doing so, trustees can encourage insurers to strengthen their approach in ways that will help to reduce climate risks to the system as a whole (so avoiding the dire scenario outlined above) as well as to the insurer itself (so providing greater protection to members' benefits in less extreme scenarios).

"Given the importance of systemic risks like climate change in determining the long-term stability of the insurance regime, insurers' climate change approach should be considered as part of this selection process. In doing so, trustees can encourage insurers to strengthen their approach in ways that will help to reduce climate risks to the system as a whole"

Claire Jones is Partner and Head of Responsible Investment at **Lane, Clark & Peacock**

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

ICS vs Solvency II: Comparing Risk Corrections for Illiquid Liabilities

Author:
Craig Turnbull
Partner, and Head of Regulatory Advisory
Barnett Waddingham

Author:
Amit Lad
Principal, Insurance and Longevity Consulting
Barnett Waddingham

"In contrast to the Matching Adjustment, L2-88 requires the explicit inclusion of the asset's credit risk premium (CRP) in the risk correction element of the illiquid liability discount rate. This was something that the PRA had argued in favour of during the FS reform debates of recent year"

The International Capital Standard (ICS) introduces a new approach to discounting illiquid liabilities — one that includes an explicit credit risk premium. But how does it compare to Solvency II's Fundamental Spread? And what might it mean for UK insurers already familiar with the Matching Adjustment? We break down the key differences and their potential impact.

The International Capital Standard (ICS), finalised by the International Association of Insurance Supervisors (IAIS) in December 2024, marks a new chapter for Internationally Active Insurance Groups (IAIGs). While the UK's five IAIGs may find ICS implementation largely uneventful — given its less demanding capital framework compared to Solvency II (SII) — certain ICS rules offer fresh insights. One area drawing particular interest is how the ICS handles illiquid liabilities and its explicit inclusion of a Credit Risk Premium (CRP) in discount rates.

This article explores:

- How the ICS risk correction for illiquid liabilities works.
- How it compares to Solvency II's Matching Adjustment (MA) and Fundamental Spread (FS).
- Whether the ICS's approach offers a more robust or practical alternative.

The ICS risk correction factor for illiquid liabilities

From a UK life perspective, the ICS treatment of illiquid liabilities, and how this compares with the SII (UK) Matching Adjustment (MA), is particularly interesting. Like SII, the ICS allows suitably matched illiquid liabilities to be discounted at a higher discount rate than other liabilities. Again, like SII, this discount rate is based on the yield earned on the assets backing the liabilities and is subject to a risk correction to allow for the credit risk exposures of those assets.

For those familiar with the MA and the Fundamental Spread (FS) reform debates of recent years, the ICS Level 2 text includes an eye-catching paragraph. L2-88 states: "For corporate bonds, the risk correction factor captures the expected loss and the credit risk premium. The expected loss is determined assuming an annualised probability of default for a theoretical 10-year bond and a loss given default of 70%. Credit risk premium is based on one standard deviation of the loss distribution."

In contrast to the Matching Adjustment, L2-88 requires the explicit inclusion of the asset's credit risk premium (CRP) in the risk correction element of the illiquid liability discount rate. This was something that the PRA had argued in favour of during the FS reform debates of recent years (See paragraph 18, DP2/22 – Potential Reforms to Risk Margin and Matching Adjustment within Solvency II and Solvency II Review: Matching adjustment and reforms to the fundamental spread). As Sam Woods, the CEO of the PRA, candidly noted recently, the PRA lost the argument for Fundamental Spread reform "hands down".

Below we discuss how the particular approach to measuring the CRP described in the ICS Level 2 text may be implemented; how the resultant risk correction compares to the Fundamental Spreads of the Solvency II MA; and, finally, whether the ICS could have implemented simpler alternative approaches to determining CRP allowances in the risk correction factors.

> "There is also a potentially important ambiguity within the definition – the standard deviation of the loss distribution referred to in the Level 2 appears to be that relating to a single asset rather than a diversified portfolio. Common sense would suggest the latter is a more natural measure – after all, the CRP exists to reward non-diversifiable default risk, not issuer-specific default risk"

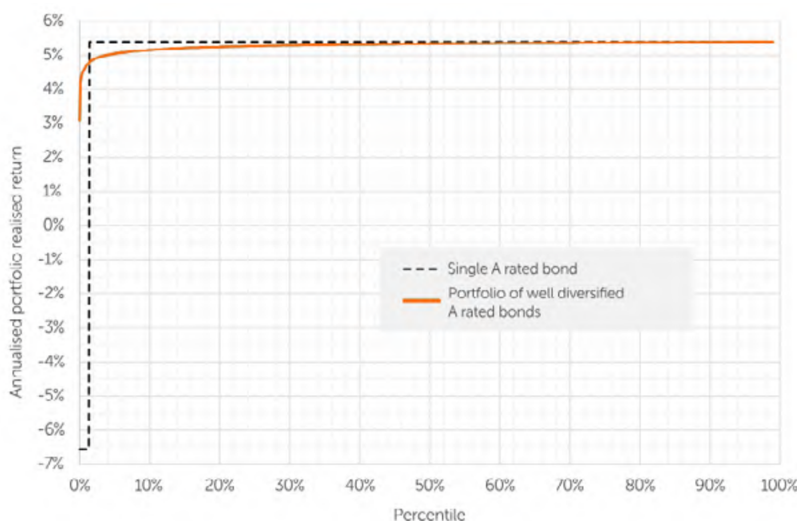
Implementing the ICS risk correction factor

The ICS risk correction factor has two components: an expected default loss (EDL) (which is comparable to the probability of default (PD) component of the MA FS) and the CRP. The ICS Level 2 text defines a measure of CRP in a specific statistical way. This CRP definition is related to the level of default risk of the asset but otherwise doesn't have an obvious theoretical basis.

There is also a potentially important ambiguity within the definition – the standard deviation of the loss distribution referred to in the Level 2 appears to be that relating to a single asset rather than a diversified portfolio. Common sense would suggest the latter is a more natural measure – after all, the CRP exists to reward non-diversifiable default risk, not issuer-specific default risk.

The charts below highlight that the difference between these two measures is highly material. The first chart compares the probability distributions for the realised rate of return on a single zero-coupon A-rated bond and a well-diversified portfolio of A-rated bonds. These probability distributions assume the bonds are bought and held until the maturity date and that the proceeds of a default are equal to the cost of a risk-free bond that pays a cashflow at the original bond maturity date equal to 30% of the defaulted bond's contractual cashflow. The credit rating transition matrix is calibrated to S&P's average multi-year global corporate bond transition matrix (1981 - 2023); and a one-factor correlation model has been used to model the joint behaviour of the well-diversified bonds, assuming a correlation of +0.3.

Chart 1: Cumulative probability distribution of the 10-year annualised realised rate of return on 10-year zero-coupon bonds

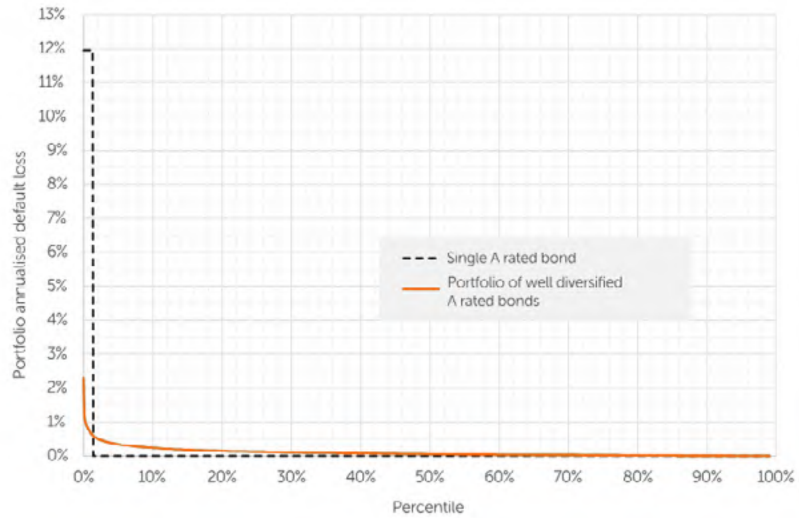


The credit transition matrix implies a single A-rated bond has a 1.4% probability of defaulting over a 10-year period. If this occurs, the loss of 70% of the contractual cashflow reduces the internal rate of return from 5.4% to -6.6%. The well-diversified portfolio, unsurprisingly, has a very different and less severe downside risk profile. The assumption of a positive correlation in the default experience of the bonds results in some material non-diversifiable risk, but the left-hand tail is nonetheless much less severe than in the case of the single bond.

The second chart plots the same data in a different way: it shows the 10-year annualised default loss distributions produced by a single A-rated bond and a portfolio of well-diversified A-rated bonds. These loss distributions are intended to correspond to the loss distributions referred to in the ICS Level 2 text.

> "While the ICS Level 2 text makes no mention of a diversified portfolio when defining this risk measure, we conclude here that the single bond approach produces untenably large risk correction measures. We therefore assume that the ICS implementation intends for diversified portfolios to be used in the determination of the standard deviation of the loss distribution for the purposes of defining the CRP component of the risk correction"

Chart 2: Cumulative probability distribution of the 10-year annualised loss distribution on 10-year bonds



The above chart highlights the obvious point – the loss distribution produced by a single bond is much riskier than that produced by a well-diversified portfolio of bonds. These different loss distributions result in very different quantifications of the ICS measure of the CRP (which refers to the standard deviation of this loss distribution): the portfolio measure produces a CRP estimate of 14bps for 10-year A-rated bond, whereas the single bond measure produces a corresponding result of 139bps.

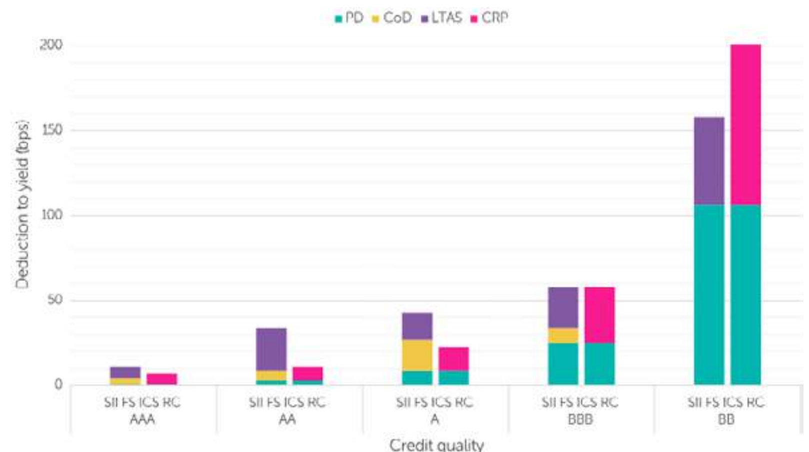
While the ICS Level 2 text makes no mention of a diversified portfolio when defining this risk measure, we conclude here that the single bond approach produces untenably large risk correction measures. We therefore assume that the ICS implementation intends for diversified portfolios to be used in the determination of the standard deviation of the loss distribution for the purposes of defining the CRP component of the risk correction.

How does the ICS risk correction compare to the Solvency II Fundamental Spread?

We next consider how the ICS risk correction compares with the Solvency II Fundamental Spread (FS). We have used the multi-year credit modelling described above to determine the ICS risk corrections for a range of credit ratings (again, all assumed to be 10-year zero-coupon bonds).

Chart 3 compares the ICS risk correction results alongside the SII FSs as published at 31 December 2024 for non-financial GBP corporate bonds. (These results are also provided in tabular form in an appendix.)

Chart 3: SII Fundamental Spreads and ICS Risk Corrections for 10-year non-financial zero-coupon corporate bonds



> "Empirically, the link between the risk premium for bearing credit risk and the equity risk premium can be determined with reference to the beta of credit-risky assets with respect to an equity index. And this empirical relationship between a credit-risky asset's credit rating and its equity beta has been the subject of considerable academic research"

The analysis suggests that the ICS risk correction is less onerous than the SII FS for AAA, AA and A credit ratings – despite the explicit inclusion of a CRP element in the risk correction. Diving into this a little further, we can compare the various components that make up each:

- As noted earlier, the ICS EDL is fundamentally similar to the SII PD, and we assume the same values for these elements.
- The remaining part of the ICS risk correction is the allowance for the CRP; and the remaining parts of the SII FS are the Cost of Downgrade (CoD) and the Long-Term Average Spread (LTAS) components. For AAA, AA, and A-rated bonds, the CoD is broadly equivalent to the ICS CRP, and it is the inclusion of the LTAS that generates most of the margin over which the SII FS exceeds the ICS risk correction.

The above analysis is a comparison at a single point in time and it only considers bonds with 10-year terms to maturity. Nonetheless, the tentative conclusion is quite interesting – for 10-year investment grade credit, the implicit margins that are included in the SII FS calibration tend to exceed the explicit allowance for a CRP that is introduced in the ICS risk correction. This result may differ over time and for different terms of bonds. It also raises the question of whether the somewhat esoteric approach to defining the CRP in the ICS risk correction produces sensible economic estimates. We consider this point next.

A simpler approach to implementing a credit risk premium estimate?

The discussion above highlighted that operationalising the ICS risk correction factor, and in particular quantifying its CRP component, is complicated to implement. It also does not have a clear theoretical basis. It behoves us to consider whether another approach could work better.

A simple approach to empirically estimating the CRP in corporate bonds can make use of the economic link between credit-risky assets and equities. Such a link can allow us to piggyback off the equity risk premium – which is arguably a more straightforward and empirically well-researched economic variable. There has been significant academic research on the theoretical link between credit risk and equity risk. The early option pricing theory research of Black, Scholes and Merton was primarily motivated by the recognition that corporate equity and corporate debt had option-like payoffs.

Empirically, the link between the risk premium for bearing credit risk and the equity risk premium can be determined with reference to the beta of credit-risky assets with respect to an equity index. And this empirical relationship between a credit-risky asset's credit rating and its equity beta has been the subject of considerable academic research.

What about the equity risk premium? Typical academic estimates (see, for example, Triumph of the Optimists, by Dimson, Marsh and Staunton) for the equity risk premium range from 3% to 5% or so. These are unconditional (or through the cycle (TTC)) forward-looking estimates. In the context of making a risk correction to a market spread, we are arguably more interested in a point-in-time (PIT) equity risk premium estimate (and we may also consider how this PIT equity risk premium likely changes in market stresses, so that we can apply a stressed risk factor in credit spread stresses).

The real yield gap – the difference between the equity dividend yield and the long index-linked bond yield – is a simple starting point for developing a PIT measure for the equity risk premium. At the end of the 2024, the FTSE All-Share had a dividend yield of 3.6% and the long index-linked gilt yield was 1.7%. Assuming a real dividend growth assumption in line with a long-term GDP growth of 1.4% implies a current PIT equity risk premium of 3.3%. This is at the low end of typical long-term TTC estimates, but current market valuations (in equity and corporate bond markets) are high by historical standards.

There have been several empirical academic studies of corporate bonds' equity beta. The table below shows some estimates for the equity betas of

credit-risky debt and the CRPs implied by the PIT equity risk premium of 1.9% discussed above and a 4.0% TTC equity risk premium. These use global corporate bond equity beta estimates published in a 2020 European Central Bank Working Paper.

Table 1: Some estimates of equity betas and CRPs by credit rating

Credit rating	Equity beta	Implied CRP (Point-In-Time)	Implied CRP (Through-The-Cycle)
AAA	0.12	0.40%	0.48%
AA	0.14	0.46%	0.56%
A	0.17	0.56%	0.68%
BBB	0.19	0.63%	0.76%
BB	0.33	1.09%	1.32%

The chart below compares and contrasts the CRP estimates produced by these approaches with those produced using the ICS definition. We also compare these with the Solvency II CoD + LTAS components, i.e. the FS in excess of the PD.

Chart 4: Comparison of CRPs and FSs in excess of PDs

So, four different approaches to estimating CRPs, and four different sets of results!

> "The extent to which we care about whether robust estimates of CRPs are included in our illiquid liability discount rate risk corrections ultimately boils down to how much we really want to construct a market-based VaR capital estimate – as opposed to dressing a run-off capital calculation in VaR clothing"

The extent to which we care about whether robust estimates of CRPs are included in our illiquid liability discount rate risk corrections ultimately boils down to how much we really want to construct a market-based VaR capital estimate – as opposed to dressing a run-off capital calculation in VaR clothing. From a market-consistent valuation perspective, it is interesting to note that the liability valuations produced by the MA are typically lower than transaction prices in the bulk annuity market. Using the CRPs produced by the equity beta approaches (instead of the CoD + LTAS of the FS) will likely result in liability valuations that reconcile more closely with current annuity market pricing. That doesn't necessarily mean they are a 'better' risk correction measure – but it does suggest they more closely align with a market-based liability valuation approach.

Concluding remarks

Our analysis suggests a slightly ironic result: despite explicitly incorporating a loading for CRP in the illiquid liability discount rate risk correction - a feature the PRA advocated for but which wasn't implemented in the Solvency UK reforms — the ICS risk corrections are less onerous than SII's FSs for investment grade bonds (at least currently for 10-year duration GBP non-financials).

"The approach taken in the ICS to defining a CRP does not have a clear theoretical foundation, and we believe there are arguably more conceptually robust approaches that can be taken that are also more straightforward to implement (and will tend to produce higher CRP estimates for investment grade quality assets). But the policy decision to include an explicit CRP in the risk correction is nonetheless an interesting development that provides a notable benchmark for future prudential policy development"

The approach taken in the ICS to defining a CRP does not have a clear theoretical foundation, and we believe there are arguably more conceptually robust approaches that can be taken that are also more straightforward to implement (and will tend to produce higher CRP estimates for investment grade quality assets). But the policy decision to include an explicit CRP in the risk correction is nonetheless an interesting development that provides a notable benchmark for future prudential policy development.

Craig Turnbull is Partner and Head of Regulatory Advisory at **Barnett Waddingham**

Amit Lad is Principal, Insurance and Longevity Consulting at **Barnett Waddingham**

Appendix

Table A.1: Composition of Solvency II Fundamental Spread and ICS Risk Correction by credit quality for a 10-year non-financial zero-coupon bond (bps)

Credit rating	SII FS		ICS RC		Difference
AAA	SII PD	1	ICS EDL	1	0
	SII COD	3	ICS CRP	6	-4
	SII LTAS	7			
	Total	**11**	**Total**	**7**	**-4**
AA	SII PD	3	ICS EDL	3	0.
	SII COD	6	ICS CRP	8	-23
	SII LTAS	25			
	Total	**34**	**Total**	**11**	**-23**
A	SII PD	9	ICS EDL	9	0
	SII COD	18	ICS CRP	14	-20
	SII LTAS	16			
	Total	**43**	**Total**	**23**	**-20**
BBB	SII PD	25	ICS EDL	25	0
	SII COD	9	ICS CRP	33	0
	SII LTAS	24			
	Total	**58**	**Total**	**58**	**0**
BB	SII PD	106	ICS EDL	106	0
	SII COD	0	ICS CRP	95	43
	SII LTAS	52			
	Total	**158**	**Total**	**201**	**43**

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

Life Risk News

Latest Issue Online!
Volume 4 – Issue 4
www.liferisk.news

Q&A

Martin Kramer
Managing Partner, Ceptar Consulting

Author:
Greg Winterton
Contributing Editor
Life Risk News

The life settlement industry's tertiary market is an opaque one, with many of the transactions being conducted on an over-the-counter, bilateral basis. Greg Winterton caught up with Martin Kramer, Managing Partner at Ceptar Consulting, to find out what's been happing in this part of the life settlement world.

GW: Martin - let's begin with a look back on the start of this year. Has the first quarter of 2025 delivered more activity in terms of deal flow in the tertiary market, or less, and why?

MK: Greg – thanks so much for having me. In terms of market activity, I have seen more transactions so far in 2025 compared to the first quarter of last year, with a few large capital sources that are deploying money into the space. But I would also say that since it is still early in the year, we don't know for certain if some or all of the portfolios that are being shopped at the moment will transact. Last year (2024) saw at one notably large portfolio transacting, which is something that, in terms of size, we haven't seen this year yet, but there is, of course, plenty of time left and we'll know more as the year progresses. But the tertiary market is definitely off to a busier start than it was in Q1 2024.

GW: What's your view on the 'health' – pardon the pun – of life settlement portfolios in the tertiary market when it comes to up-to-date LE's? Are sellers bringing blocks of business that have better information for the buyer(s)?

MK: I don't really see life settlement portfolios with really stale LEs anymore. The market has gotten much better in that regard. Most portfolios in the tertiary market now have at least one LE that is only a few years old – years ago, it was easier for sellers to sell-on really old LEs and still achieve competitive IRRs but not anymore. In terms of origination quality, there is still a considerable number of cases with origination risk floating around in the market, and market participants need to form their own view on whether to accept this risk in exchange for a more aggressive discount rate or not.

Continued on next page...

View Our Archive

View Archive

GW: ELSA has developed its Master Agreement for Tertiary Transactions (MATT) but aside from that there is a lack of standardisation in terms of policy documentation - and valuation methodology – in the tertiary space. How much of a roadblock is this to getting more deals done here?

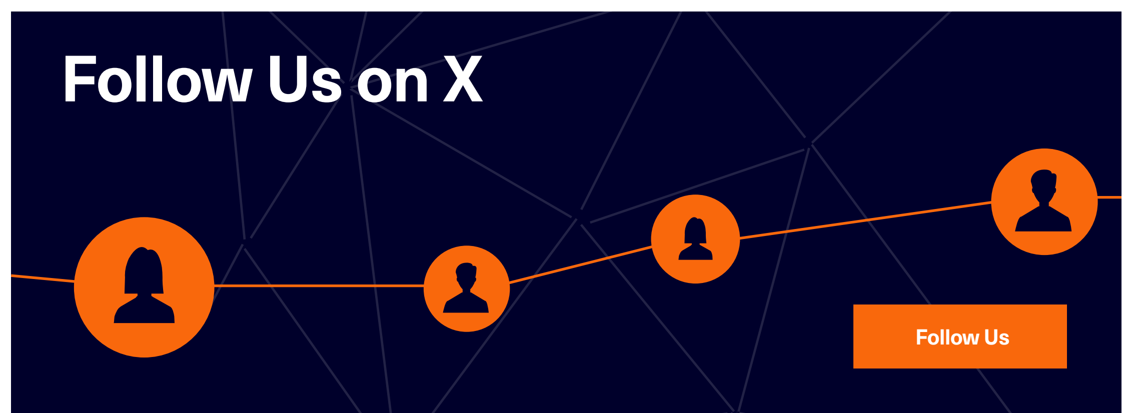
MK: First of all, I would like to commend ELSA on creating the MATT and making it available to all its members – ELSA is the only organization that has managed to produce a standard document for parties to transact on and that should be applauded. As for whether more standardization is a good thing, I would like to play the devil's advocate here, and argue that standardization, in general, would pose more risks than benefits to our industry because the difference in valuation methodologies between asset managers/policy buyers, and market participants taking different views on origination risk, LE underwriting etc., is what the tertiary market thrives on. With more standardization – such as in policy valuation, for example - there would likely be a much lower level of activity as fewer firms would be able to differentiate their offering and create some kind of edge.

GW: What is the ratio of 'distressed' portfolios – where the seller needs to sell – to non-distressed (where the seller is just shopping around) in the tertiary market? I assume distressed blocks see opportunistic bidders looking for a bargain.

MK: This year (2025) is only a few months old and it might be a little too early to tell what the exact ratio is. However, I am fairly certain that the number of distressed sellers will increase this year compared to 2024. Interest rates in the US haven't come down yet this year, which means that the cost of capital (and with it, the borrowing cost) remains relatively high. If interest rates were only temporarily high, some investors might try to ride it out by restructuring debt or raising capital. However, if rates stay at or around their current levels for an extended period, the financial strain accumulates, making distress more likely, forcing more sales into the tertiary market. Add to that those that have suffered from subpar mortality performance, or capital redemptions, and you might see some managers finding that there is an increasing gap between their bookmarks, and where the market is currently trading at.

GW: Lastly, Martin, what's the outlook for the rest of the year? What are the chances that deal activity increases or decreases, and why?

MK: I am fairly certain that transaction volume in the tertiary market will go up in 2025, in part due to what I said about the likelihood of more distressed portfolios. There is sufficient capital in the market looking for a chance to deploy so there is no demand issue, it's a supply one. The challenge will be whether the seller's expectations in terms of price align with where the market is actually trading in 2025.



Are Recent Asset Manager-Owned Life Insurance Consolidator Divestments a Sign of Waning Interest?

Author:
Greg Winterton
Contributing Editor
Life Risk News

Much of the conversation around the involvement of alternative asset managers in the life insurance industry in the past few years has centred around both the pension risk transfer market and the asset-intensive life reinsurance market in the US. In both cases, the investment firm enjoys the benefits that access to higher-yielding, private investments provides.

But something that somewhat preceded the recent increased appetite from asset managers looking to get a slice of the life insurance pie is their involvement in the buying and building of life insurance consolidators.

> "Both the consolidator and distribution markets have been in consolidation for many years - driven primarily by a few platform investments by mega-cap funds. These two examples are two of the larger ones. These are very large assets, and they are now typically too large even for mega-cap PE to do solo"
> - Robert Lytle, Stax

Two recent and notable transactions, however, saw brand-name asset managers exit their consolidator investments. In December last year, Blackstone sold Resolution Life to Japanese insurance giant Nippon Life. Then in mid-March, Cinven sold Viridium Group, a German life insurance consolidator, to a consortium comprising Allianz, BlackRock, T&D Holdings, Hannover Re and Generali Financial Holdings.

Is this a sign, then, of some kind of trend of alternative asset managers exiting the consolidator market? Unlikely, according to Arik Rashkes, Partner and Head of Financial Institutions at Solomon Partners.

"The nature of private equity is to make money for the limited partners and return the capital to them. They have a time horizon, and while sometimes they extend it a bit, the return of capital back to the LPs was likely the main reason these deals happened when they did."

So, whilst the timing of these two deals is less likely to be indicative of a broader trend, that doesn't mean that activity will ramp up going forward, either. Life insurance consolidators are large companies, necessarily; Viridium Group had approximately €67bn of assets under management, 3.4m policies and about 900 employees, according to the press release announcing the deal, and there are only so many firms that have the scale and expertise to buy and/or build these types of companies – even some alternative asset managers, who would be considered large when compared to their peers, now simply don't have the scale to do it.

"Both the consolidator and distribution markets have been in consolidation for many years - driven primarily by a few platform investments by mega-cap funds. These two examples are two of the larger ones. These are very large assets, and they are now typically too large even for mega-cap PE to do solo," said Robert Lytle, Senior Managing Director at global consultancy, Stax.

Those potential new entrants seeking to get a piece of the life insurance-based permanent capital action still have a few options. They can buy a life insurer, enter into a partnership with one whereby they serve as the or one of the exclusive asset managers, or partner with one in the asset intensive life reinsurance market.

Each option requires access to significant capital and intellectual resources.

"In the past decade, I've been getting calls almost weekly sometimes from asset managers and PE funds asking us to help them create the next Athene. Out of 100, maybe one pulled the trigger or created something from scratch. This is not an easy task; you need expertise, and you need to understand how to manage pension and insurance assets. It requires a ton of capital. The universe of those firms that can pull this off is limited," said Rashkes.

The asset intensive life reinsurance market would appear to be the most obvious entry point. These deals are more straightforward to execute (when compared to alternative options) and, according to ratings agency AM Best, they are a growth area; the firm said in February that, overall, total ceded reserves to life and annuity sidecars increased to nearly $55bn in 2023 from approximately $17bn in 2021 and the outlook for additional activity is solid.

"The vast majority of reserves ceded are covering liabilities for indexed and fixed annuities. We expect this trend to grow much more

significantly as more deals closed in 2024 and the environment continues to be conducive for annuity growth," said Jason Hopper, Associate Director, Industry Research and Analytics at AM Best.

"Even if asset-manager sponsors maintain their commitment to the long-term nature of life/ annuity insurance business through partial or outright ownership of some companies, the sidecars to which they reinsure a small share of the business may follow a traditional private equity model."

So, alternative asset manager involvement in the life insurance market is here to stay. And, according to Rashkes, there is good reason for the doubters to feel a little bit better about it.

> **"Private investing is not necessarily riskier. Because of the time horizons and the track records of the mega funds, it's actually sensible that a professional, well known, reputable fund will manage pensions and insurance assets"**
> **- Arik Rashkes, Solomon Partners**

"Private investing is not necessarily riskier. Because of the time horizons and the track records of the mega funds, it's actually sensible that a professional, well-known, reputable fund will manage pensions and insurance assets," he said.

"If you think about life insurers 20 years ago, they were largely investing in investment grade assets but then the market dipped into uncharted territory with the zero-interest rate regime. These insurers had to reinvent themselves. The involvement of alternative asset managers in the life insurance market is part of an evolution, and it's a trend that makes sense."

Learn More About ELSA

Phone: +44 (0) 203 490 0271

Email: admin@elsa-sls.org

Life Risk News

Life Risk News
ISSN 2753-7374
Volume 4, Issue 04
April 2025

Editorial Enquiries
editor@liferisk.news
+44 (0) 20 3490 0271

© 2025 European Life Settlement Association