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UK Insurers Less Resistant to Illiquid Assets but Cash Premiums Remain King for Bulk Purchase Annuities

Capital Markets Investors Could Be About to Get a Slice of UK Life Insurance Risk

New Reports Suggest Life Settlement Market in 'Confident Evolution'

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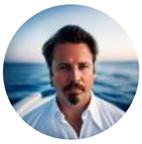

Chris Wells
Managing Editor
Longevity & Mortality Investor

Recent weeks have seen the publication of two new reports from insurance asset manager, Conning – one of them produced in conjunction with life settlement industry group the European Life Settlement Association, publisher of *Longevity and Mortality Investor* – that paint an optimistic picture of the state of the life settlement market. *Greg Winterton* spoke to **Conning**'s **Manu Mazumdar**, Head of Data Analytics & Insurance Technology and **Scott Hawkins**, Managing Director and Head of Insurance Research and **Chris Conway**, Managing Director at **Vitaro Group** to get their views on the outlook for the space in *New Reports Suggest Life Settlement Market in 'Confident Evolution'*.

The inclusion of illiquid assets in defined benefit pension scheme portfolios has historically been seen as a roadblock on the journey to complete a bulk purchase annuity transaction in the UK, so *Mark McCord* spoke to **Russell Chapman**, Head of Investment Risk Transfer at **Hymans Robertson**, **Huw Evans**, Professional Trustee and Director at **BESTrustees** and **Miki Fairfax**, also a Professional Trustee at **BESTrustees**, to get their thoughts on how private assets are viewed currently by the market for *UK Insurers Less Resistant to Illiquid Assets but Cash Premiums Remain King for Bulk Purchase Annuities*.

The UK's Prudential Regulation Authority has published *DP2/25 – Alternative Life Capital: Supporting innovation in the life insurance sector*, which sets out the PRA's initial thinking and invites feedback on potential policy changes that could allow UK life insurers to transfer defined tranches of risk to the capital markets. *Greg Winterton* spoke to **George Belcher**, Partner at **Mayer Brown**, to get his thoughts on what the PRA will need to think about as it formulates its reforms in *Capital Markets Investors Could Be About to Get A Slice of UK Life Insurance Risk*.

The 2025 edition of the *Life Insurance Fact Book* – the American Council of Life Insurers' annual review into the inner workings of US life insurance company balance sheets – was published in early November. As with previous years, **Roger Lawrence**, Managing Director at **W L Consulting**, takes a look at some of the notable results in *US Life Insurance Industry Retreats Slightly in 2024 but Remains Healthy Fundamentally*, the first of three articles Lawrence will be writing for LMI in the next few months.

The past four decades has brought revolutionary improvements in cancer care, transforming many forms of cancer from fatal diagnoses into chronic, manageable conditions. **Pushparani Mudaliyar**, Medical Underwriter at **CG Analysts**, provides something of a 'state of the market' perspective in *Decoding Progress: The Evolution of Life Expectancy for Cancer Patients*, a guest article.

Actuaries in the UK's longevity and mortality modelling industry have been exceptionally busy in 2025. *Greg Winterton* spoke to **James Hadley**, Senior Consultant at **Barnett Waddingham**, to learn more about what is front and centre of the conversation in his world as the year draws to a close in this month's *Q&A*.

The UK life insurance industry is now responsible for hundreds of billions of pounds in pension liabilities via the bulk purchase annuity market. Given the critical importance of these insurers to the millions of Britons receiving defined benefit pensions, the Prudential Regulation Authority conducted its Life Insurance Stress Test initiative this year to assess potential risks and identify firms standing too close to the risk precipice. *Greg Winterton* asked **Roger Lawrence**, Managing Director at **W L Consulting**, and **Chris Rice**, Head of Trustee Services at **Broadstone** for their thoughts on the results in *Stress Test Results Find UK Life Insurance Industry in Rude Health*.

I hope you enjoy the latest issue of *Longevity and Mortality Investor*.

New Reports Suggest Life Settlement Market in 'Confident Evolution'

Author:
Greg Winterton
Contributing Editor
Longevity & Mortality Investor

Two new reports from insurance asset manager, Conning – one of them produced in conjunction with life settlement industry group the European Life Settlement Association (ELSA), publisher of *Longevity and Mortality Investor,* paint an optimistic picture of the state of the life settlement market.

The *2025 ELSA–Conning Life Settlement Investor Sentiment Study* is the sophomore edition of the report, which was first published last year; it is based on a survey of 252 investment executives (up from 155 last year), mainly asset managers and institutional investors, on their views about the asset class, both positive and negative.

As was the case last time, the report provides the life settlement market with plenty to chew on as it considers how best to shape its messaging going forward.

> **"It's clear that investors understand the main benefits that the life settlement asset class offers institutional portfolios, something it should take encouragement in. Particularly now, when financial markets are begging to diverge more than they have in recent years, assets such as life settlements that can provide diversification and low correlation make a strong case for an allocation"**
> **- Manu Mazumdar, Conning**

The good news for the industry is that there is plenty in the report for it to like. Investors were asked about what contributes to any positive views they have towards the asset class, and for the second year running, diversification (83%) and lack of correlation to broader financial markets (79%) were the top two answers.

"It's clear that investors understand the main benefits that the life settlement asset class offers institutional portfolios, something it should take encouragement in. Particularly now, when financial markets are begging to diverge more than they have in recent years, assets such as life settlements that can provide diversification and low correlation – and, might I add, with lower volatility - make a strong case for an allocation," said Manu Mazumdar, Head of Data Analytics & Insurance Technology at Conning, and author of the *2025 ELSA–Conning Life Settlement Investor Sentiment Study.*

Other answers provide additional food for thought. Investors who had not previously invested in life settlements, whether they had considered them or not, were asked what they would need in order to do so; top of the list was transparency on fees (40%) and a close second was transparency on medical underwriting (36%). These two were further down the list in fourth and sixth place last year.

"That fee transparency is higher this year doesn't surprise me too much – but I'd say that is a general trend in alternative investments, as opposed to being life settlement specific," said Chris Conway, Managing Director with the Vitaro Group.

"But I'm pleased to see medical underwriting transparency higher up the list. What this tells me is that investors generally are getting a better idea of the importance of the medical underwriting function in the life settlement market. Given that longevity risk is the single greatest investment risk in our space, accurate life expectancy forecasts – which are driven by the medical underwriting process – should be top of mind for investors as part of their manager due diligence effort."

Other roadblocks require navigating – some of which will be much more difficult than others. Investors were asked what aspects of the market contributed to any negative views they held about life settlements; performance history, at 71% of the respondents, came top. Solving for that will be difficult – no life settlement performance benchmark exists, at least, not publicly, so investors will need to continue to interact directly with asset managers (or through their consultant) to get up to date information.

Lack of liquidity is another, and limited market size another – although, as this magazine has mentioned numerous times, plenty of efforts are underway by both industry groups and individual companies to raise awareness, which, in turn, should boost activity.

The second report, *Life Settlements: A Pause for Now* is Conning's 20th annual deep dive into some of the inner workings of the space, and one takeaway this year is that Conning expects the average aggregate size of new life settlement transactions to be $4.6bn per year through 2034 with the number of secondary market transactions reaching almost 3,500.

"I'm pleased to see medical underwriting transparency higher up the list...given that longevity risk is the single greatest investment risk in our space, accurate life expectancy forecasts – which are driven by the medical underwriting process – should be top of mind for investors as part of their manager due diligence effort"
- Chris Conway, Vitaro Group

The latter figure would be a post-Global Financial Crisis record; industry magazine *The Life Settlement Report* tracks life settlement secondary market transactions and the highest number of transactions recorded since at least 2017 was 3,237 in 2020.

But 2024 delivered something of an activity setback, as 2,732 secondary market deals were completed last year, down 14.1% on the 3,181 the magazine reported in 2023.

Conning's report acknowledges the blip but Scott Hawkins, Managing Director and Head of Insurance Research, and author of *Life Settlements: A Pause for Now* points to two tailwinds that support the firm's view.

"The life settlement market may have paused in 2024, but the long-term forces driving growth remain intact," he said.

"Investor interest in alternative assets is strong, and the emergence of a broader direct-to-consumer life settlement market is expanding access and awareness."

The growth in the direct-to-consumer (DTC) segment of the life settlement market to which Hawkins refers is referenced again in this year's report, as it was last year.

'Life settlement providers are implementing mass market consumer advertising and direct-to-consumer settlement capabilities', the impact of which is 'Positive. The development of a life settlement mass market should increase consumer awareness and increase the number of policies settled' says the report.

Conning's report includes a discussion on how it is adjusting its forecast methodology to account for the emergence of a life settlement mass market; such is the potential impact of the growth of the DTC market on the overall space.

The report acknowledges the difficulty of incorporating a "known unknown" – in this case, the impact of greater consumer awareness - into the forecast but does so by adjusting the lapse rate. At a 5% increase, the model's highest rate of change, increases the average market potential universe of policies available for sale from approximately $230bn in 2034 to approximately $390bn.

The reality is that not every US senior with a life insurance policy would be willing to sell it, of course. And not every policyholder who wants to sell meets the criteria required by an investor. So, Conning also estimates the net market potential, which, according to the report, would average $181bn per annum over the next ten years.

Given the life settlement secondary market currently transacts around $4-4.5bn per year and regularly references a perceived lack of awareness among policyholders as a headwind to growth, the bullish case becomes clear.

"The $4.5bn or so of secondary market transactions each year represents only 2.5% of the net market potential. Even if the space were to double current volumes, it would barely be making a dent in the overall opportunity. When you add the other tailwinds on the supply side – an aging population, and the need for long-term care funding sources – to the increasing search for alternative assets like life settlements that have low correlations to larger market movements on the demand side, and you see why we remain positive about the space in the long term," said Hawkins.

The report also contains a section that delves into a topic that is, while evergreen, very much front and centre of the industry at the moment – that of carrier risk.

A life insurer that goes bust can't pay the death benefit upon maturity, of course. And this risk has been very much in the news in the past 18 months with the rehabilitation of PHL Variable Life Insurance Company.

The latest and greatest is that the Connecticut Superior Court has approved the modification of the moratorium on certain benefit payments and transactions until the confirmation of a rehabilitation plan, which is due by the end of this year.

The bottom line is that any life settlement investors holding PHL universal life policies can pay less in premiums, as long as they also accept a reduced death benefit, or convert their policy to a claim for a fixed amount – undoubtedly much lower than the policy face value – and incur no further premium payments (or keep the status quo, which is to keep paying the full premiums in the hope that the $300,000 cap on payouts gets increased under the rehabilitation).

While there are eight firms that have submitted bids for all or parts of PHL, and "the rehabilitator continues to believe that a transaction has the potential to deliver at least as much, and possibly more, value to policyholders than would be received in a liquidation of the Companies", it is likely that some investors will lose some money here.

> **"The underlying structural features of the life settlement market are strong. You have a growing senior population, which is likely to mean more policies available to settle in the coming decade... and then you have investors increasingly looking to alternative credit solutions like life settlements. There is plenty of opportunity for this market if it can solve the awareness conundrum"**
> **- Scott Hawkins, Conning**

But at the macro level, any overt concern about PHL could be a case of not seeing the wood for the trees. Conning's report also looks at life settlement insurer performance, where it identifies 42 target insurance operating subsidiaries from 37 insurance groups that have issued policies held by life settlement investors.

The weighted average risk-based capital – a measure of an insurer's financial strength developed by the National Association of Insurance Commissioners – for these 42 insurers was, at 463%, higher than the 434% for the weighted average life insurance industry, and both groups were significantly above the 200% authorized control level capital (the level at which a state regulator may consider taking action to address an insurer's solvency risk). Indeed, every one of the 42 insurers held an RBC above 200% at the end of 2024, according to the report.

All life settlement eyes are now firmly fixed on Josh Hershman, the new interim PHL Rehabilitator, after Andrew Mais' abrupt resignation at the end of last month. And, while the life settlement market may well be in "A Pause for Now", for Hawkins, the bigger picture is one of robustness and opportunity.

"Again, the underlying structural features of the life settlement market are strong. You have a growing senior population, which is likely to mean more policies available to settle in the coming decade. And some of these people will need some kind of care, which incurs costs that a life settlement can help pay for," he said.

"And then you have investors increasingly looking to alternative credit solutions like life settlements. There is plenty of opportunity for this market if it can solve the awareness conundrum."

UK Insurers Less Resistant to Illiquid Assets but Cash Premiums Remain King for Bulk Purchase Annuities

Author:
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The difficulty of selling, regulatory capital constraints and valuation/due diligence complexity are all reasons why the inclusion of illiquid assets in the portfolios of defined benefit (DB) pension schemes can be a hindrance to the process of completing a bulk purchase annuity buy-ins or buy-outs in the UK.

Insurer appetite to capitalise on booming pension risk transfer (PRT) deals means that any resistance is not as pronounced as it was previously, however; more are willing to give trustees leeway in unloading sticky assets like private equity and private credit fund holdings and directly held assets such as property. Some have also begun accepting them in part payment of transaction premiums as growth in private markets has boosted the assets' value and appeal.

"It isn't necessary that all the assets are sold before approaching the market in order to get to the front of the queue," said Russell Chapman, Head of Investment Risk Transfer at Hymans Robertson.

> **"It isn't necessary that all the assets are sold before approaching the market in order to get to the front of the queue...Plus, there are often various other options of how to deal with any illiquid assets, which can be worked through as part of the deal and may or may not be a big issue depending on affordability – that being the scheme's overall funding position and surplus"**
> **- Russell Chapman, Hymans Robertson**

"Plus, there are often various other options of how to deal with any illiquid assets, which can be worked through as part of the deal and may or may not be a big issue depending on affordability – that being the scheme's overall funding position and surplus."

Insurers generally require de-risking schemes to liquidate their portfolio holdings and pay for bulk-annuity purchase transaction in cash to avoid the post-deal cost of doing it themselves. As well, private and alternative assets aren't the sort of matching adjustment-eligible securities that insurers would usually invest in to back policies.

Greatly improved scheme funding levels are making de-risking more affordable. According to LCP's latest estimates, 45% of schemes are already buy-out funded, up from 5% in 2021. That's forecast to rise to 80% in the next five years.

Consequently, trustees have elevated the sale of illiquid assets up their priority lists in preparation for de-risking at the same time as insurers have tempered their aversion to them.

An LCP report earlier this year found that during 2023 and 2024 a handful of insurers accepted illiquid assets in the form of private markets assets in part-payment for bulk-purchase annuity premiums totalling more than £3bn, about 4% of total paid in the period.

Even among insurers still unwilling to absorb illiquid assets, some are giving schemes additional time to offload them.

"One of the things that we've seen in the market is insurers willing to defer bigger portions of the premium and for longer," said Huw Evans, Professional Trustee and Director at BESTrustees.

"It used to be that you could defer, say, 2.5% for a year but now you can defer 5% for three years. The terms become more flexible the bigger you are."

Larger schemes have the economies of scale for insurers to absorb the potential cost of holding sticky assets. Larger schemes are also more likely to invest in directly held assets that are easier to sell; smaller schemes will more often opt for more affordable but less liquid indirect securities, such as fund holdings.

The new landscape has put schemes in a better position to transact without liquidating all their holdings. This year's LCP report, for instance, said that the influx of overseas insurers and capital providers into the UK PRT market has included companies with expertise in illiquid holdings.

The growth of a secondary market, where investors buy assets from other investors, has also provided more liquidity for trustees and insurers alike. Standard Life research published earlier this year that said just over half of DB trustees were planning to go to sell in the secondary markets to improve their liquidity positions.

"Secondaries fund investors are certainly active in the market and provide a good pool of potential buyers for illiquids from DB funds," said Chapman.

"However, there are other investors active in the market, such as other pension funds which remain open or in run-on, public sector funds, overseas buyers and so on."

More schemes are also seeking loans against illiquid assets to boost their cash holdings before a buy-in or buy-out. The Standard Life report said two-thirds of trustees are considering such loans because they can be a more cost-effective way to dress their cash holdings than alternative liquidity strategies, such as deferred premium payments. They also enable the eventual realisation of returns from those assets.

Insurers' tolerance for illiquid assets has hinged in part on schemes' willingness to accept discounts on the value of their holdings. The extent to which they are ready to accept such "haircuts" can depend on the characteristic of the asset and the size of the scheme.

> **"Insurers are very interested in transaction certainty; a scheme with fewer problems goes up the list, and disposing of or integrating an illiquid asset is definitely a problem...If you don't have that problem, that's definitely a good start for you if you are an insurer"**
> **- Huw Evans, BESTrustees**

"The discount can vary quite significantly by asset; some popular private debt funds can now be sold at or very close to net asset value (NAV), while for funds that are less popular or have perhaps underperformed, discounts can be 30%-40%," said Chapman.

The private market assets that account for schemes' illiquid positions became a feature of UK DB scheme portfolios because they offered higher risk-adjusted returns at a time when funding levels were lower.

Of the £1.7tn of assets held by UK DB schemes in 2024, about £274bn was allocated to alternative assets. Trustee interest in them is likely to continue after the Pensions Schemes Bill, published this year, made it easier for trustees to allocate capital to them - despite the Bank of England warning that the risks associated with large investments, especially in private credit markets, are untested and potentially dangerous.

"The private credit market is relatively new and has ballooned over the last couple of years and it is interesting to see the push to invest," said Miki Fairfax, also a Professional Trustee at BESTrustees.

"But I am surprised there is still such a push for private credit knowing that we've got some red flags going up."

The uptick in flexibility towards illiquid assets doesn't mean insurers have experienced a Damascene conversion. Only a quarter of deals in 2023-2024 accepted such securities as part payment on premiums and a Standard Life report published in November found a third of trustees said illiquids remain a stumbling block to their endgame ambitions.

Even a change to the matching adjustment solvency regime that has made it potentially easier for insurers to take sticky assets onto their books is not seen as a vector for change yet.

"We expect it will start to help at the margins, but we haven't seen significant changes so far," said Chapman.

While illiquid assets may yet endure among schemes that run on, they are set to remain a prefer-not-to-have for insurers.

"Insurers are very interested in transaction certainty; a scheme with fewer problems goes up the list, and disposing of or integrating an illiquid asset is definitely a problem," said Evans.

"If you don't have that problem, that's definitely a good start for you if you are an insurer."

Capital Markets Investors Could Be About to Get a Slice of UK Life Insurance Risk

Author:
Greg Winterton
Contributing Editor
Longevity & Mortality Investor

A year ago, the Bank of England issued a consultation paper that proposed reforms to the UK Insurance Special Purpose Vehicle (UK ISPV) regulatory framework, through a combination of changes to Prudential Regulation Authority (PRA) rules, supervisory statements and statements of policy.

The consultation paper acknowledged that "The UK ISPV regime has seen limited uptake since its introduction in 2017," and "Feedback from market participants has been that the UK regime does not positively support the establishment of UK ISPVs."

Exciting times for property and casualty and catastrophe bond investors and issuers, then, as this particular reform was specific to those markets - which meant that the life insurance industry did not receive its invite to the party.

Change has now appeared on the horizon, however. In September this year, Vicky White, Director, Prudential Policy at the PRA, gave a speech at the 30th Annual Bank of America Financials CEO Conference in which she said,

> **"The acknowledgement by the PRA that the UK life market could benefit from alternative financing options is undoubtedly a win for the space"**
> **- George Belcher, Mayer Brown**

"Developing alternative life capital options in a way that preserves protection of policyholders, enables access to cheaper or more patient capital and supports growth, will require more focussed attention...One such potential alternative that may have a role to play is the insurance special purpose vehicles (ISPVs) framework...The PRA will therefore continue to work with industry and HMT on further reforms and expects to publish a discussion paper on the topic of alternative life capital options which will consider how the ISPV framework (or other structures) could be made accessible to UK life insurers."

The PRA has now delivered on that promise with the publication of DP2/25 – Alternative Life Capital: Supporting innovation in the life insurance sector, which sets out the PRA's initial thinking and invites feedback on potential policy changes that could allow life insurers to transfer defined tranches of risk to the capital markets.

While this is only a discussion paper for now, the PRA's intentions clearly make for encouraging reading for the capital markets.

"The acknowledgement by the PRA that the UK life market could benefit from alternative financing options is undoubtedly a win for the space," said George Belcher, Partner at Mayer Brown in London.

The paper identifies five sections where the PRA is seeking answers to questions: Identifying the need for capital in the UK life insurance sector; Risk transformation examples; Striking a balance between cedants and capital providers; Authorisation and supervisory safeguards; and Alternative life capital principles. Each section contains an array of questions, which interested parties need to answer by Friday 6th February 2026.

As with any regulatory development, particularly when it comes to the life insurance industry, there are many things that the PRA needs to consider.

"The obvious point is that there are also clear differences between life/longevity risks and natural catastrophe risk for these purposes, including that the relevant longevity liabilities already exist, they may not readily be capped, and often much of the supporting capital already exists in the form of the (former) pension scheme assets," said Belcher.

"The PRA will need to define 'fully funded' in the context of longevity risks, consider the extent to which the cedant benefits from a matching adjustment (MA) in respect of its reinsurance asset with the ISPV, consider how investors may 'collect' on the principal investment ahead of expiry of the underlying/reference risks – for example, via development of 'put' options and a secondary market – and make technical amendments to the Risk Transformation (Tax) Regulations 2017 to make clear that such risks are subject to the appropriate tax treatment," Belcher added.

Where there is a will, there is a way – usually. And there is, of course, precedent in other jurisdictions. The US has an active – and growing – life reinsurance sidecar market, which grew to total ceded reserves of nearly $55bn in 2023 from approximately $17bn in 2021 according to an AM Best special report published earlier this year.

A feature of the US market is the increasing involvement of alternative asset managers. The trend is a well-established one stateside, with these investors participating in the US life insurance industry either by merger (Apollo and Athene for example), investment partnerships (Resolution Life and Blackstone, for example) or Bermuda-domiciled reinsurers for asset-intensive life reinsurance transactions.

These behemoth investors will doubtless be watching developments with interest, as will traditional asset managers. But multiple industry commentators have suggested that it is inevitable that the capital markets will have to play a greater role in longevity-linked assets and that the UK is now seriously looking at this as something of an early Christmas present.

> **“While there are many regulatory and other issues that need to be resolved, overall, however, this appears to be an important first step on what many see as a necessary journey – i.e., the mutualisation of society's growing longevity exposure with the international capital markets”**
> **- George Belcher, Mayer Brown**

“While there are many regulatory and other issues that need to be resolved, overall, however, this appears to be an important first step on what many see as a necessary journey – i.e., the mutualisation of society's growing longevity exposure with the international capital markets,” said Belcher.

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US Life Insurance Industry Retreats Slightly in 2024 but Remains Healthy Fundamentally

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The 2025 edition of the *Life Insurance Fact Book* – the American Council of Life Insurers' (ACLI) annual review into the inner workings of US-based life insurance company balance sheets – was published in early November. As with previous years, I will be highlighting some notable and interesting takeaways from the Fact Book for a series of articles for Longevity and Mortality Investor, starting with this one, a review of key statistics for the US life insurance industry in general and some that have relevance for the life settlement industry in particular.

General Industry Performance in 2024

The number of life insurers continued its decline from 719 in 2023 to 711 in 2024 as further consolidation to streamline costs and, for mutuals, demutualisation continues to be popular so that additional capital can be accessed. The rise in foreign ownership continued, as the number of entities with overseas ownership grew from 101 to 109, or 15.3% of the total. Within that, Bermuda contributed a further 8 compared to 2023 - up to 30 now - and Japan is up 5 to 20. The biggest reduction was from the UK, down from 7 insurers to just 2 in 2024.

Total assets of life insurers rose from $8.74trn to $9.26trn (+5.9%) in another strong year for the industry, and total liabilities rose from $8.23trn to $8.73trn (+6.1%), which was notably more than the expansion of assets.

This shortfall in growth between assets and liabilities unsurprisingly led to a drop in Capital Ratios (CR), which measure straight surplus. The CR - including the asset valuation reserve (AVR, a reserve to smooth changes in asset prices), changed from 10.7% to 10.5% and, excluding the AVR, from 9.0% to 8.7%. Whilst these are drops, they should not be regarded as worrisome as they are simply reversals of the improvements seen last year.

The AVR rose 4.8% in 2024 to an aggregate $104bn whilst its sibling, the IMR (Interest Maintenance Reserve, which covers fixed income investments) shrunk 36.2% to $10bn as bond yields normalised during the year.

Life Insurance Products

> "For life insurance products, the picture was a mixed bag, with further increasing average face values of new policies offsetting stagnant sales figures. In addition, we saw a return to growth in individual policy sales and a reduction in group sales, which is a reversal of the unusual spike in group sales seen in 2023 "

For life insurance products, the picture was a mixed bag, with further increasing average face values of new policies offsetting stagnant sales figures. In addition, we saw a return to growth in individual policy sales and a reduction in group sales, which is a reversal of the unusual spike in group sales seen in 2023 (that arose from changes in reinsurance cession). This may have been an indication that pressure on household finances eased as inflation abated, but there were still heightened levels of policy surrenders and lapses.

Individual policy in-force face amounts were $14.07trn at the year-end, marginally up from $13.98 trn (+0.7%) with the smaller amount of group policy face falling 3.1% from $8.10trn to $7.85trn. In total, all life policy in-force face changed from $22.15trn to $22.01trn (-0.7%).

Despite the fall in overall policy face amount, policy reserves all rose. For individual policies, reserves rose 4.0% from $1.656trn to $1.722trn, and group business reserves changed from $0.194trn to $0.203trn (+4.8%).

Premium income on life products was much stronger, increasing from $122bn to $173bn (+42.2%) but this was a reversal from 2023's equivalent, likely as a result of a reversion to normal reinsurance patterns.

> **"It would appear that this increase in surrender values paid out mostly arises from holders of policies with higher encashment values choosing to surrender. Although lapse rates are still above 2022 values, over 2024 they have reduced compared to 2023 "**

Claims paid in individual contracts rose over the year in aggregate. Contractual payments from death claims were slightly down from $66.3bn to $66.2bn (-0.2%) but surrender payments rose from $35.8bn to $44.2bn (+23.7%). Although a much smaller group by value, surrenders on group policies fell from $5.8bn to $2.7bn, a fall of 52.8%. As we have seen with new sales and premium payments, 2023 seems to have been an outlier; surrenders on group policies over both 2023 and 2024 rose from $1.1bn to $2.7bn, a significant rise, and for individual policies over the same period, the figures also show a large rise, from $28.8bn to $44.2bn.

It would appear that this increase in surrender values paid out mostly arises from holders of policies with higher encashment values choosing to surrender. Although lapse rates are still above 2022 values, over 2024 they have reduced compared to 2023. Individual policy lapse rates in 2023 fell from 7.3% to 6.6% whilst those for group contracts rose only marginally from 3.8% to 4.0%. The equivalent surrender rate for individual policies is 1.3%, up from 1.2%, whilst group surrenders are in rounding error territory, seemingly unchanged at 0.1%.

New business excluding a small amount of credit insurance was a much more mixed picture. New life products issued by face and number are shown in Figure 1 below.

Figure 1: US Life Insurance New Product Issuance, 2023-2024, $trns

	2023	2024	Change
Individual Face	$1.971	$2.012	+2.0%
Group Face	$1.617	$1.483	-8.3%
Total face	$3.588	$3.495	-2.6%
Individual No.s (thousands)	9,586	9,612	+0.6%
Group No.s (thousands)	27,394	26,682	-6.8%
Total No.s (thousands)	36,980	36,294	-1.9%

Source: ACLI Life Insurers Fact Book, 2025 Edition. Totals include credit insurance

We will look at these various figures in more detail in further editions of Longevity and Mortality Investor. However, the immediate takeaway is that 2024 was a year of recovery after a difficult 2023 for households financially as inflation spiked before ebbing away. Looking at individual years can be misleading, and policyholder behaviour does not conveniently sit within calendar year conventions, so whilst new policy sales are not yet up to full strength and cancellation rates appear to have been above trend, the pattern within the year may have been more favourable towards the end.

Last year, we looked at the rise in death benefits paid out and also at how the "Covid curve" was developing. The ACLI's published US mortality data is one additional year out of date than the life insurer data, so is not particularly meaningful to industry professionals who are much closer to current developments. All this data does is to confirm that their observations are as we know: 2020 and 2021 experienced the main heightening of mortality, and that subsequently, mortality rates were slow to return to 2019 levels and beyond (Figure 2). We don't intend to look at this again in future.

Figure 2: US Crude Death Rate per 1,000 Americans

Year	Rate
2018	8.7
2019	8.7
2020	10.3
2021	10.4
2022	9.8

Source: ACLI Life Insurers Fact Book, 2025 Edition

Annuity Business

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

Figure 3: US Life Insurance Company Net New Contributions, $bns:

	2023	2024	Change
Individual	$244	$266	+9.7%
Group	$116	$164	+41.1%
Total	$361	$430	+19.1%

Source: ACLI Life Insurers Fact Book, 2025 Edition

Figure 4: US Life Insurance Company Annuity Reserves, $trns:

	2023	2024	Change
Individual	$2.866	$3.031	+4.8%
Group	$1.261	$1.317	+4.4%

Source: ACLI Life Insurers Fact Book, 2025 Edition

In 2023, we saw an unusual rise in individual annuities and a shrinkage in group, suggesting some transfers out to individual policies, but in the main it was due to variances in the amounts of reinsurance coverage being used by some insurers, something that has not been so pronounced in 2024.

However, taken as a whole we can see a significant continued growth with net new considerations equivalent to 10% of net reserves. The reserves themselves may have reduced to a small degree as a result of risk-free yields having risen during the year, but this still suggests activity remained robust in this business sector relative to historic levels.

Conclusion

As with previous years, the US life insurance industry had a solid 2024 from a balance sheet perspective and continues to be healthy from a risk perspective. Whilst liability growth outpaced asset growth last year, the difference was minimal, and the legacy of the Covid-19 pandemic still appears to be diminishing, to the point where, as I mentioned previously, unless something extraordinary happens, it will not be considered for this article next year.

Whilst capital ratios also retreated slightly, this appears to be more of a reversion to the norm as opposed to anything particularly concerning, so institutional investors with alternative investments that carry exposure to US life insurers – life settlements, life ILS, life-contingent structured settlements, for example – remain connected to an industry that was, as of the end of 2024, in good health.

"Institutional investors with alternative investments that carry exposure to US life insurers – life settlements, life ILS, life-contingent structured settlements, for example – remain connected to an industry that was, as of the end of 2024, in good health"

Roger Lawrence is Managing Director at **W L Consulting**

Decoding Progress: The Evolution of Life Expectancy for Cancer Patients

Author:
Pushparani Mudaliyar
Medical Underwriter
CG Analysts

> "Early detection remains the single most effective way to improve survival. Screening tools have allowed cancers to be found at earlier, more treatable stages""

Until the end of the 20th century, cancer care was rudimentary. Late detection, limited treatments focused on surgery, radiation and chemotherapy, which in those days was barely tolerated. Survival was poor. By the 1950s, only 25% of diagnosed individuals survived five years. In the period 1975–77, the all-cancer 5-year relative survival in the U.S. hovered near 49%.[1]

Landmark milestones that initiated progress include the first chemotherapy agents (e.g., cisplatin curing testicular cancer, 1972–75)[2] and the establishment of cancer registries like the National Cancer Institute's Surveillance, Epidemiology and End Results program ("SEER"), laying foundations for survival tracking.

Modern Advances in Diagnosis and Treatment

The past four decades have brought revolutionary improvements in cancer care, transforming many forms of cancer from fatal diagnoses into chronic, manageable conditions. Progress has been driven by innovations across the diagnostic pipeline, from screening and imaging to molecular profiling and next-generation therapies.

<u>Screening and Early Detection</u>

Early detection remains the single most effective way to improve survival. Screening tools have allowed cancers to be found at earlier, more treatable stages.

Mammography has halved breast cancer mortality since its widespread adoption, particularly in women aged 40–69[3]; Colonoscopy and fecal immunochemical tests (FIT) reduced colorectal cancer incidence and mortality by enabling polyp removal before malignancy;[4] PSA (Prostate-Specific Antigen) testing has improved survival in prostate cancer, though it sparked debate about overdiagnosis[5]; and low-dose CT scans for lung cancer in high-risk populations have shown 20–24% reductions in mortality.[6]

<u>Advances in Imaging</u>

Modern imaging technology allows accurate staging, monitoring and detection of recurrence. CT, MRI, and PET scans offer high-resolution, functional insights into tumor biology. PET-CT, in particular, has become a cornerstone in staging lymphoma and monitoring treatment response[7] while molecular imaging techniques now visualize receptor expression (e.g., HER2 or PSMA), guiding both diagnosis and targeted therapy.

<u>Genomic Profiling and Personalized Medicine</u>

One of the most transformative shifts has been precision oncology, where treatment is tailored based on genetic alterations. Next-generation sequencing (NGS) enables comprehensive tumor profiling, identifying driver mutations such as *EGFR, ALK,* and *KRAS*; companion diagnostics now guide therapy selection, for instance, HER2 testing for trastuzumab and PD-L1 expression for immunotherapy[8] and liquid biopsies (circulating tumor DNA) offer non-invasive detection of mutations, monitoring of minimal residual disease and early relapse prediction.[9]

<u>Targeted Therapies</u>

Traditional chemotherapy indiscriminately attacked dividing cells, often with severe toxicity. In contrast, targeted therapies act on molecular drivers of

> "Artificial intelligence and machine learning are increasingly integrated into cancer diagnostics and treatment. AI algorithms can detect breast cancer on mammograms with accuracy comparable to radiologists and predictive models help stratify patients for personalized therapies and optimize clinical trial enrolment"

cancer. Tyrosine kinase inhibitors (TKIs) (e.g., imatinib for CML, Osimertinib for EGFR-mutant lung cancer) have extended survival dramatically[10]; monoclonal antibodies like trastuzumab (HER2+ breast cancer) and rituximab (lymphoma) revolutionized outcomes; and antibody-drug conjugates (ADCs) deliver cytotoxic agents directly to tumor cells, minimizing systemic toxicity (e.g., Trastuzumab Deruxtecan in HER2-low breast cancer, FDA-approved in 2022).

Immunotherapy and Cellular Therapies

Immuno-oncology is arguably the most dramatic breakthrough in modern cancer treatment. Immune checkpoint inhibitors (e.g., Pembrolizumab, Nivolumab) restore T-cell recognition of cancer, achieving durable remissions in melanoma, lung cancer, and beyond.[11] CAR-T cell therapy, where patient T-cells are genetically engineered to attack tumors, has transformed outcomes in refractory leukaemia's and lymphomas[12]. Trials are now exploring its application in solid tumors and cancer vaccines and oncolytic viruses represent emerging approaches to "teach" the immune system to eradicate tumors.

Integration of Digital and AI Tools

Artificial intelligence and machine learning are increasingly integrated into cancer diagnostics and treatment. AI algorithms can detect breast cancer on mammograms with accuracy comparable to radiologists[13] and predictive models help stratify patients for personalized therapies and optimize clinical trial enrolment.

Impact on Outcomes

These combined advances mean patients are now diagnosed earlier and treated more precisely, living longer with a higher quality of life and benefiting from therapies that not only prolong survival but, in some cases, offer long-term remission or cure.

For instance, chronic myeloid leukaemia (CML), once fatal within 5 years, now has survival rates approaching that of the general population with lifelong TKI therapy.[10] Similarly, melanoma, once uniformly deadly at advanced stages, now sees >50% 5-year survival in the immunotherapy era.

Trends in Life Expectancy

U.S. and Global Survival Trends

The U.S. combined 5-year relative survival rose from ≈49% (1975–77) to ≈69% (2013–19)[14]. For diagnoses from 2014–20, the American Cancer Society reports a 5-year relative survival of 69% overall[15]. Among populations in the 1960s vs. now, cancer survival rates rose from 39% to 70% in caucasian individuals and from 27% to 65% in black individuals.[15] Data from 2000–2016 showed cancer survival rates to have improved from 63.5% to 69.0% in the U.S.[16]

From 1975–2014, solid tumors saw 5-, 10-, and 20-year survival rates of 62.2%, 57%, and 50.8%, respectively—higher than hematologic cancers. The highest 20-year relative survival rates: thyroid (95.2%), germ cell tumors (90.3%), melanoma (86.8%), Wilms' tumor (86.2%), prostate (83.5%).[17]

Cancer-specific Examples

Breast Cancer

Breast cancer represents one of the most notable success stories in oncology. In the 1970s, the U.S. 5-year relative survival rate for breast cancer hovered around 75%. Today, that figure exceeds 91% overall, with localized disease achieving 99% survival.[18] This progress is attributed to mammography screening, earlier diagnosis, hormone receptor–guided therapy (e.g., Tamoxifen, Aromatase inhibitors), and HER2-targeted treatments like Trastuzumab. Mortality has dropped by 43% since 1989 in the U.S., translating to nearly 460,000 deaths averted.

Prostate Cancer

Prostate cancer, the second most common cancer in men, has also seen dramatic gains in survival. In the 1970s, the 5-year survival rate in the U.S. was about 69%. Today, thanks to PSA testing, advanced imaging, and precision-guided treatment, the relative 5-year survival is nearly 97% overall and approaches 100% for localized disease.[18] Breakthroughs in treatment include androgen-deprivation therapy, next-generation anti-androgens and genomic tools that identify which men can safely avoid aggressive treatment. Recent genomic classifiers, such as the Decipher test, are helping reduce overtreatment by identifying low-risk cases (Collins & Varmus, NEJM, 2015). Mortality has dropped by over 50% since the 1990s in the U.S., though incidence has fluctuated with PSA testing recommendations.

Melanoma

Historically, advanced melanoma carried a grim prognosis. Prior to 2010, median survival for metastatic disease was less than a year. Today, survival outcomes have changed dramatically due to immunotherapy and targeted BRAF/MEK inhibitors. In the U.S., the overall 5-year relative survival rate is now 94%, though this figure reflects the large proportion diagnosed at localized stages. For distant metastatic disease, survival has improved from 5% in the 1990s to over 30–40% in the immunotherapy era.[18] Landmark studies with immune checkpoint inhibitors (Nivolumab, Pembrolizumab, Ipilimumab) have demonstrated durable remissions exceeding 10 years in some patients.

Lung Cancer

In contrast to breast and prostate cancers, lung cancer remains the leading cause of cancer death worldwide. Historically, survival was extremely poor, with 5-year rates under 10% in the 1970s. Advances in screening and therapy have improved this outlook. The current U.S. 5-year relative survival rate is 25% overall, with 65% for localized disease.[18] Low-dose CT screening in high-risk populations has facilitated earlier detection, while targeted therapies for *EGFR, ALK,* and *ROS1* mutations, along with immunotherapy, have extended survival for advanced disease. For instance, 5-year survival for *EGFR*-mutated non-small cell lung cancer treated with Osimertinib now exceeds 40%, a remarkable leap from historical outcomes.[19] Despite these gains, lung cancer still accounts for nearly 1 in 5 cancer deaths worldwide.

Survivor Prevalence

> "The number of U.S. cancer survivors grew from 3.7 million in 1975 to 18.1 million in 2022 and is projected to reach 26 million by 2040. In 2022, 70% had survived 5+ years, 48% 10+ years, and 19% 20+ years"

The number of U.S. cancer survivors grew from 3.7 million in 1975 to 18.1 million in 2022 and is projected to reach 26 million by 2040. In 2022, 70% had survived 5+ years, 48% 10+ years, and 19% 20+ years.[20]

Mortality and Global Trends

Age-standardized cancer death rates globally fell by one-third from 1990 to 2021.[23] In the U.S., mortality rate declined from 198.8 to 144.2 per 100,000 in the period 2000–2021, a 27.5% reduction.[16]

Factors Driving Improvement

Public awareness and screening – established programs lead to earlier diagnosis. Healthcare access – expanded care improves outcomes globally, though gaps remain. Treatment innovation – immunotherapy, ADCs, CAR-T and precision medicine are giving formerly terminal stages chronic-disease outcomes. Lifestyle interventions – a balanced diet, regular physical activity, smoking cessation and limiting alcohol intake can all lead to lower cancer mortality and improved survival rates.

Remaining Challenges

Late-stage diagnosis remains common, especially in low-resource settings and for aggressive cancers like pancreatic, brain and liver. Certain cancers still have poor prognosis. Both pancreatic and glioblastoma have 5-year survival rates of <10%.[22,23] Disparities by race, e.g., five-year breast cancer survival in U.S. is 81% in black women vs 92% in caucasian women.[24] Cost and Access - Advanced therapies often remain unaffordable or inaccessible, particularly in developing regions despite promising technology.[25] Disparities in cancer research funding

- common cancers affecting minority populations are consistently underfunded compared to their disease burden and mortality rates.

Future Outlook

Clinical trials and emerging therapies - ASCO 2025 highlighted advancements, including pembrolizumab in head and neck cancer, CAR-T boosting survival in solid tumors (gastric, glioblastoma) and liquid biopsies for rapid personalized detection.[26] AI and machine Llearning - tools for early detection, prognosis (e.g., AI in lung cancer) and guiding treatment decisions.[27] Objectives include improving Quality-Adjusted Life Years (QALYs), moving cancer toward chronic manageable disease status and expanding precision detection (e.g., multi-cancer early detection tests).[25, 28]

Impact of cancer treatment advancements in the Life Settlement Industry

Advancements in cancer treatment have profoundly reshaped the life settlement industry by extending survival periods and transforming cancer from a deadly disease into a more chronic but treatable one. Where policies linked to cancer once offered shorter durations, higher investor returns and generous cash offers to the sellers, they now demand more complex underwriting, longer premium commitments and ongoing expert reassessment of existing life expectancies (LEs). Due to the rapid advancements in some cancer treatments, LEs previously calculated may now be obsolete and may need to be extended (indeed some lives may change from highly impaired to standard), with the possibility of significant investment losses.

Underwriters need to constantly remain up to date with the latest advances in cancer therapy and resulting longer LEs. Failure to do this will result in inaccurate LE calculations and ultimately incorrect pricing of policies and poor investor returns.

In some instances, the insured's recalculated life expectancy may be too long to be profitable and may therefore not meet the sales criteria.

This evolution has reduced the supply of policyholders with previously incurable or terminal cancer, altered investor strategies and heightened the need for precision in risk evaluation. Ultimately, progress in oncology underscores both the unpredictability and resilience of the life settlement market.

Conclusion

Over the past half-century, life expectancy for cancer patients has seen extraordinary gains and this trend is accelerating. From a previous 5-year survival of under 50%, to the current 69% or higher, long-term survival is increasing, and mortality rates are declining globally. Yet, equity gaps, access hurdles, and stubbornly fatal cancers remain.

This remarkable progress underscores that cancer is becoming more treatable, but continued research, equitable access, supportive lifestyle interventions and smart implementation of emerging technologies are essential to build on this momentum.

> "Over the past half-century, life expectancy for cancer patients has seen extraordinary gains and this trend is accelerating. From a previous 5-year survival of under 50%, to the current 69% or higher, long-term survival is increasing, and mortality rates are declining globally. Yet, equity gaps, access hurdles, and stubbornly fatal cancers remain"

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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

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Q&A

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For those actuaries in the UK's longevity and mortality modelling industry, 2025 has provided plenty of activity to keep them busy. Greg Winterton spoke to James Hadley, Senior Consultant at Barnett Waddingham, to learn more about what is front and centre of the conversation in his world as the year draws to a close.

GW: James, let's start with the obvious. What has been the big news story in mortality modelling circles in the UK this year, and why?

JH: One of the big developments this year has been the eagerly anticipated release of CMI_2024 by the CMI, which feeds into the projections of mortality used in valuations of long-term liabilities.

The Model includes two important new features. The first is the fitted overlay. Recent versions of the CMI Model have reflected the extraordinary mortality during the pandemic by giving reduced weight or no weight to data for years since 2020. CMI_2024 instead reflects the pandemic through an "overlay" term, which starts in 2020 and decays exponentially, halving in each successive year.

The second is the addition of multiple period terms. Previous versions of the Model have included one period term, which helped determine mortality trends over time at all ages. CMI_2024 includes five period terms, allowing it to better reflect trends at different ages, namely worsening mortality at working ages contrasted with improvements at older ages.

At the same time, GLP-1 agonists have continued to pique the interest of practitioners, with prescriptions soaring and their likely effects on mortality trends starting to be better understood.

GW: There has been significant coverage of GLP-1 agonists this year, just like in 2024. They seem to still be the talk of the town. How is the mortality industry currently factoring in the effects of these drugs when the general understanding of their medium to long-term impact is embryonic?

JH: A major development this year has been the licensing of some of these medicines for weight loss treatment on the NHS, with further programme expansions expected over the next few years. However, most prescriptions are still accessed privately, disproportionately benefiting individuals in higher socioeconomic groups, who are also more likely to hold life insurance products.

Swiss Re recently projected a 3.2% fall in all-cause mortality in the UK over the next 20 years due to these medicines. Insurers are beginning to factor this into their longer-term mortality modelling, particularly by considering the socioeconomic composition of their portfolios and their current claims experience. This may involve adjusting assumptions and exploring scenarios to reflect different accessibility and health outcomes.

Continued on next page...

GW: When you look at cause-of-death trends (e.g. cardiovascular, cancer, neurodegenerative diseases), what surprises you most right now, and what implications might this have for longevity expectations?

JH: While major causes like circulatory diseases and cancer continue to dominate mortality statistics, what's most surprising is the sharp rise in less prevalent causes, particularly mental and behavioural disorders, and endocrine, nutritional and metabolic diseases. For some working-age groups, mortality rates from these causes have increased by over 50% between 2013 and 2023, which is a considerable and unexpected shift.

The Institute and Faculty of Actuaries' Mortality Research Steering Committee published a "drivers of mortality" dataset last year. This shows a marked increase in comorbidities, likely driven in part by these emerging causes, although also affected by changes in reporting practices. The growing complexity of causes of death profiles suggests that longevity expectations may need to be revised for certain groups. Insurers will need to closely monitor these trends and adapt their modelling to reflect the evolving risks.

GW: From an insurer or pension scheme perspective, where do you see the biggest modelling blind spots — areas where risk may be under- or over-estimated?

JH: I think one of the biggest blind spots in current mortality modelling is the limited consideration of economic factors. The Global Financial Crisis and the ensuing recession, Brexit, and the COVID-19 pandemic have all impacted public finances and, in turn, the ability to invest in health and social care. We have seen sustained impacts on population mortality, and I expect there could be longer-term consequences as well.

Between 2000 and 2011, five-year average mortality improvements were above 2% a year. Since then, we entered a "new normal" of much slower improvements of around 0.5% a year for the years ending 2015-2019. Emerging post-pandemic analysis suggests this trend is persisting, and improvements are worse for working ages and those in lower socioeconomic groups. If models fail to account for these diverging trends, they risk underestimating liabilities, particularly for portfolios with greater exposure to younger or less affluent populations.

GW: As we approach the end of 2025, what is top of mind in your world as we look to 2026?

JH: As we approach 2026, one of the key areas we're watching is the evolving pattern of circulatory disease mortality. In my article, I noted a step-change in mortality for some working-age groups between 2019 and 2020, which persisted through 2023. Interestingly, recent all-ages Public Health England data shows a return to 2019 levels in 2024.

What's top of mind now is understanding whether this feature is seen for both working-age individuals and pensioners. We're also monitoring how other causes of death, particularly those linked to socioeconomic status, continue to shift. These trends could have large implications for longevity modelling, especially in portfolios with exposure to more diverse demographic profiles.

James Hadley is a Senior Consultant at **Barnett Waddingham**

Stress Test Results Find UK Life Insurance Industry in Rude Health

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The UK life insurance industry has taken on a collective hundreds of billions of pounds of pension liabilities via the bulk purchase annuity market in the past decade or so, making their survival critical to the millions of Brits who now depend on these companies to pay their defined benefit pension.

This is partly why the Prudential Regulation Authority (PRA) ran its LIST (life insurance stress test) initiative this year – to see which insurers, if any, were standing too close to the risk precipice.

Good news: None of them are. At least, none of the 11 subjected to the test, which together account for 90% of annuity liabilities in the UK, according to the PRA.

Under the PRA's one in 100 severity scenario, a three-stage process that begins with an interest rate decline of 150 basis points, widening credit spreads of +270bps and a fall in equities of -30%, followed by a deepening phase including reductions in property assets, notably residential, and a consolidation phase with credit and inflation spreads easing and the allowance of easing of management actions.

The overall effect was to cut the aggregate solvency capital requirement (SCR) coverage ratio from 185% and to a still healthy 154%, which "remains well above regulatory requirements".

Under stage 1, the test's initial shock, the SCR declined by just five percentage points to 180%, a win for those that defend the industry's resolve.

"For the 11 insurers tested to see only a five-percentage point decline in the SCR given the criteria laid out by the PRA for the test – from an already very strong start – speaks to the quality of the asset and liability matching of these companies" - Roger Lawrence, W L Consulting

"That's barely a blip," said Roger Lawrence, Managing Director at W L Consulting. "For the 11 insurers tested to see only a five-percentage point decline in the SCR given the criteria laid out by the PRA for the test – from an already very strong start – speaks to the quality of the asset and liability matching of these companies."

Stage 2 is where the action happens, as the SCR falls to 154%, "reflecting exposure to credit rating downgrades and defaults on bonds and falls in residential property values – key asset classes used to generate cash flows for annuity payments to policyholders."

Relevance here, then, to the equity release market. Insurers in the UK are prolific funders of these mortgages, as they are one of a limited group of long-term assets that they can buy for long-term liability matching. UK life insurers internally securitise equity-release portfolios to retain them on their balance sheets, allocating senior notes to the matching adjustment and junior tranches to shareholder funds to optimise capital and solvency.

The LIST scenario notably calls for a -28% reduction in residential property values – something which has not happened in the last 50 years, with a reduction of 18% between September 2007 (when the average house price in the UK was £175.052) and March 2009 (when it fell to £142,278) being the largest fall observed in that period.

On top of these core stresses, however, LIST looks at the addition of two specific stresses. The first is a further specific credit downgrade to the asset class making up the biggest share of the matching adjustment (MA) portfolio – the aforementioned equity release mortgages (ERMs).

The PRA said that ERMs account for 16% of the MA portfolio asset value on average. Under the scenario specification, this results in around 3% of their MA portfolio assets being subject to downgrade.

"Whilst the additional stress is only being applied to a small part of a company's whole balance sheet. The PRA have expressed concern before over growing concentrations of ERMs in MAs. The fact that it only results in a drop of 1% on the SCR coverage ratio to 153% is positive news," said Lawrence.

While UK life insurance exposure to ERMs may be notable, it's the use of funded reinsurance by insurers that is a current PRA bugbear. A letter to CEOs back in July 2024 explained that "the PRA is concerned that the current growth in FundedRe transactions by UK life insurers could, if not properly controlled, lead to a rapid build-up of risks in the sector and in January this year it made clear that this topic remained a focus.

Under the second exploratory test, which was to see what happened if there was a total failure of an insurer’s biggest reinsurance counterparty (resulting in a large recapture of liabilities), the results show a collective recapture of liabilities of £12.3bn, approximately 50% of the aggregate Funded Re exposure of the test’s participating firms (as at 31 December 2024, the date at which the composition of life insurer balance sheets was tested).

> **“The results of the PRA’s LIST demonstrate the resilience and capital strength of the UK’s life insurance market in the face of a severe macroeconomic shock...It should give trustees confidence in the security of their members’ pensions should they opt for a pension risk transfer transaction for their endgame objective”**
> **- Chris Rice, Broadstone**

The recapture increases their MA portfolio net liabilities by approximately 6%; with a corresponding fall in the average SCR coverage ratio of 10% to 144%.

While it doesn’t appear that the PRA will let this one go – “The exercise also identified some gaps in how firms consider and allow for the costs of recapture, which will become increasingly important in the event of continued growth in the use of Funded Re and potential changes to the underlying collateral. These findings will inform future policy work in this area,” said the PRA’s report - for now, it’s a good news story for UK DB scheme trustees and their members.

“The results of the PRA’s LIST demonstrate the resilience and capital strength of the UK’s life insurance market in the face of a severe macroeconomic shock,” said Chris Rice, Head of Trustee Services at Broadstone.

“It should give trustees confidence in the security of their members’ pensions should they opt for a pension risk transfer transaction for their endgame objective.”

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