

2025 Provides Activity, Change and Evolution for UK Pension Risk Transfer Market

US Plan Sponsors are Turning to OCIOs for Buy-Out Readiness

Investor Consensus Emerging as Life Settlements Considered 'Resilience' Allocation, but Education Requirement Remains



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Editor's Letter, Volume 2, Issue 01, February 2026



Chris Wells
Managing Editor
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Mortality Investor

One of the findings from the *2025 ELSA-Conning Life Settlement Investor Sentiment Study* was that investors see life settlements sitting in their 'resilience bucket,' alongside private credit, infrastructure, and real assets. **Manu Mazumdar**, Head of Data Analytics & Insurance Technology at **Conning**, **Patrick McAdams**, Investment Manager at **SL Investment Management** and **Liam Bodemeaid**, Founder & Principal Actuarial Consultant at **Paragon Longevity Analytics** provided their thoughts on the topic to **Greg Winterton** in *Investor Consensus Emerging as Life Settlements Considered 'Resilience' Allocation, but Education Requirement Remains*.

The UK pension risk transfer market experienced substantial change in 2025 with defined benefit scheme trustees, sponsors and insurers likely to feel developments over the past 12 months have improved their outlooks. **Mark McCord** spoke to **Mark Austin**, Pensions and Insurance Executive for EMEA at asset servicing provider **Northern Trust** and **Dean Wetton**, Founder and Managing Director of London-based **Dean Wetton Advisory**, to get their views on the main talking points from another busy year in the space in *2025 Provides Activity, Change and Evolution for UK Pension Risk Transfer Market*.

A recent survey from **Aon** identified several areas where some US defined benefit pension schemes could still take action to help themselves on the journey towards an insurance buy-out. **Greg Winterton** spoke to **Eric Friedman**, Partner and Director of Content Development at **Aon Investments USA** to get his thoughts on some of those findings in *US Plan Sponsors are Turning to OCIOs for Buy-Out Readiness*.

The latest data on excess mortality in England, published by the Office for Health Improvement and Disparities, shows that there were significantly fewer deaths among the older cohorts and the working-age population as well. **Mark McCord** spoke to **Amy Walker**, Actuary and UK Client Delivery Lead at **Club Vita** and **Matthew Edwards**, former Chair at the **Continuous Mortality Investigation**, to get their views on how those in the UK mortality modelling space see excess death data in *Mortality Rates Scrutiny as Excess Deaths Data Contradicts CMI*.

The new Actuarial Guideline 55 in the US is designed to provide regulators with more transparency into the asset adequacy of offshore asset-intensive life reinsurance structures. **Greg Winterton** spoke to **Yan Fridman**, Consulting Actuary at **Milliman** and **Jason Kehrborg**, Immediate Past Vice President of Life at the **American Academy of Actuaries**, to get their views on the new rule and its potential impact on the market in *Reporting Change to Provide Regulators With More Transparency into US/Offshore Asset-Intensive Life Reinsurance Treaties*.

In today's rapidly evolving insurance landscape, the arrival of AI in life and health insurance underwriting and claims workflows is no longer a distant possibility - it's already a reality. **Swiss Re's Febby Mulewa**, Head UW & Claims Portfolio, Market Units L&H Reinsurance and **Maura Feddersen**, Behavioural Research Manager, CUO L&H Reinsurance, highlight some of the potential use cases for investing in *AI in 10 Areas To Watch for AI Innovation in Life and Health Underwriting and Claims*.

The UK's pension risk transfer market posted another strong year in 2025 both in terms of activity and aggregate premium transacted. **Greg Winterton** caught up with **Alan Greenlees**, Professional Trustee and Head of Risk Transfer at **ZEDRA**, to get his insights on a range of sub-topics within the space as 2026 begins in this month's *Q&A*.

The 2025 edition of the Life Insurance Fact Book – the American Council of Life Insurers' annual review into the inner workings of US-based life insurance company balance sheets – was published in early November. **Roger Lawrence**, Managing Director at **W L Consulting**, returns with the third of three articles looking at trends and developments in life insurance policy cancellations in *Higher Sales and Lower Lapse Counts but Rising Exit Values for US Life Insurance Market*.

Investor Consensus Emerging as Life Settlements Considered ‘Resilience’ Allocation, but Education Requirement Remains



Author:
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A recent report from insurance asset manager Conning and the European Life Settlement Association (ELSA, publisher of Longevity and Mortality Investor) details the findings of a survey that posed a series of questions to institutional investors regarding their views of, participation in, and experience of, the life settlement market.

One of the findings was that investors “increasingly position life settlements within their “resilience bucket,” alongside private credit, infrastructure, and real assets, as a defensive yet productive counterbalance to volatility in public markets”.

Life settlements defy easy categorisation. While they offer the defined payout characteristic of fixed income, they also carry the valuation complexities of private market assets, where the underlying value fluctuates based on shifting life expectancy estimates and discount rates.

“Life settlements offer true return independence - their cash flows are driven by human longevity, not interest rates, credit spreads, or equity markets... the diversification benefit is real and consistently cited in our survey. In fact, diversification was the number-one reason investors said they allocate to life settlements”
- Manu Mazumdar, Conning

For many institutional investors, ‘resilience’ is synonymous with the credit markets, but resilience in a portfolio doesn’t always have to wear the guise of a loan. According to Manu Mazumdar, Head of Data Analytics & Insurance Technology at Conning and author of the study, the asset class offers a distinct alternative.

“There are a few clear reasons why investors see life settlements as a resilience allocation. First, life settlements offer true return independence - their cash flows are driven by human longevity, not interest rates, credit spreads, or equity markets. In today’s environment, where virtually every asset class seems tied to macro volatility, that non-correlation seems to be incredibly valuable,”

he said.

“Second, the diversification benefit is real and consistently cited in our survey. In fact, diversification was the number-one reason investors said they allocate to life settlements. When institutions are under pressure to build portfolios that can weather different economic regimes, assets that reduce correlation and smooth volatility naturally get classified as resilience-enhancing.”

Traditional diversification strategies often lead investors toward private credit strategies such as direct lending. While these offer a different risk profile than equity, both remain tethered to the same fundamental driver: corporate performance. Whether you hold the debt or the equity, the investment’s success is ultimately sensitive to interest rates, consumer demand, and the broader macroeconomic cycle. Over-allocating to traditional credit assets can inadvertently create a portfolio that is “over-correlated” to the health of the wider economy.

Actuarial assets such as life settlements offer investors something else. At first glance, the mechanics differ significantly from standard credit; they are negative carry assets that require premium payments upfront in exchange for a terminal payout. But the perceived volatility of these ‘binary’ events is mitigated by the application of actuarial modelling. When managed at scale, the lumpy nature of individual policy payouts transforms into a more predictable stream of returns.

This can make life settlements a “diversifier within diversifiers.” Unlike corporate private credit, the primary risk isn’t an economic downturn, but mortality, which operates independently of the stock market or GDP growth. Applying actuarial science to an asset class means that investors can achieve a level of cash-flow stability that rivals traditional credit, but without the traditional macro sensitivities – providing that the quality of the combined underwriting and actuarial expertise is of a good enough standard.

“Actuarial science allows us to quantify risk and variability in a disciplined way by analysing mortality patterns and their financial consequences. In life settlements, that means we can model portfolio

cash flows with a high degree of confidence once there is sufficient scale. Diversification across enough policies tends to smooth individual outcomes, making aggregate cash flows relatively stable. That said, this resilience ultimately depends on the quality of the underlying mortality assumptions; without well-calibrated assumptions, even a large portfolio can produce misleading projections,” said Liam Bodemeaid, Founder & Principal Actuarial Consultant at Paragon Longevity Analytics.

Manager at SL Investment Management, says that the efforts are paying off.

“It is of course important for our market that investors not only understand where we fit, but why,” he said.

“And we’re seeing that ourselves when having conversations in the market. It’s noticeable that the ‘knowledge floor’ has risen in recent years, although, it needs to keep rising.”

Raising that floor will require continued effort. Life settlements are arguably more complicated assets than vanilla private credit because the maturity date of the asset is a variable, rather than a contractual certainty. This introduces a layer of volatility driven by medical advances and discount rates, requiring a level of specialised due diligence that often goes beyond the credit analysis applied to a mid-market loan, for example.

But the space seems up for it – the ELSA-Conning report was commissioned to take the temperature of sophisticated investors and asset managers, and as the report is now in its second year, the industry can begin to identify trends, both good and less so, that it might want to support or push back against.

But, for Mazumdar, the work is just beginning.

“Our survey shows that investors are at very different stages of understanding. Some absolutely ‘get it,’ and others still need education before they can engage in the portfolio-fit discussion. Portfolio fit remains an important narrative — but for a sizable portion of the market, the educational priority should still be foundational,” he said.

“Clearer data, more transparency, and more accessible education will help bring new investors to the point where the diversification story resonates. Once those pieces are in place, the ‘where does it fit?’ conversation becomes far more productive and more aligned with what experienced investors already understand.”

“Actuarial science allows us to quantify risk and variability in a disciplined way by analysing mortality patterns and their financial consequences. In life settlements, that means we can model portfolio cash flows with a high degree of confidence once there is sufficient scale. Diversification across enough policies tends to smooth individual outcomes, making aggregate cash flows relatively stable”

- Liam Bodemeaid, Paragon Longevity Analytics

The question of where life settlements should find a home in institutional portfolios is important for the industry because proper classification determines, in part, how value is perceived; until it is recognised as a fundamental pillar of resilience, the asset class is unlikely to attract the scale of capital its peers currently do. Proving it can fulfil a permanent, strategic role moves it past ‘opportunistic’ status and into the mainstream.

What the industry is likely encouraged about is that some kind of consensus seems to be emerging. Those active in the market have long argued that (much) more investor education is needed in order to get those less familiar with the space to even walk up to the door, let alone go through it, and Patrick McAdams, Investment

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2025 Provides Activity, Change and Evolution for UK Pension Risk Transfer Market



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The UK pension risk transfer (PRT) market experienced substantial change in 2025 with defined benefit (DB) scheme trustees, sponsors and insurers likely to feel developments over the past 12 months have improved their outlooks.

Schemes benefited from continued funding improvements and a favourable de-risking price regime despite bulk-purchase annuity (BPA) deal values dipping.

Sponsors may also be gleefully rubbing their hands at the prospect of greater opportunity to draw surpluses from their schemes as government policy looks set to favour more run-ons.

And insurers could harbour a sense of optimism as consolidation within the sector reduces competition.

While full-year transaction data has yet to be published by insurers or consultants, analysts think the market tempered in 2025 and failed to breach the £50bn mark that many had predicted. LCP, for instance, forecast the year saw between £40bn and £50bn in deals.

how sponsors could more easily extract surpluses from their schemes, giving them capital to reinvest in their companies or pass on to members. Those ambitions have been written into the Pension Schemes Bill, which is due to be enacted this year.

Consequent expectations that sponsors will eschew de-risking plans for run-ons became manifest later in the year when TPT Retirement Solutions announced it would launch a run-on superfund, enabling smaller schemes with weaker funding positions to pool their assets and provide them with greater investment clout.

With a greater choice of endgames now available, trustees are taking a wider look at their options, said Mark Austin, Pensions and Insurance Executive for EMEA at asset servicing provider Northern Trust.

“We think all of those things working together actually stopped the market from hitting that big figure,” said Austin.

“What we have seen has not slowed that market down, but given the market a bit of pause for thought and we think that that has in some ways not changed the market for good, but has certainly changed the dynamic.”

Trustees and sponsors can be choosier because many of them are flush with capital. Funding positions across the almost 5,000 existing DB schemes rose in 2025, with The Pension Protection Fund noting in its December update that the aggregate funding ratio had climbed to 129.9%, with 3,675 schemes holding almost £260bn in surpluses. That far outweighs the 1,294 underfunded schemes with total deficits of £19.3bn.

Schemes have benefited from rising stock prices, which sent the UK's benchmark FTSE 100 Index to a record in mid-November, and improving gilt yields.

“A lot of our clients were in a better position at the end of the year than they were at the beginning of the year,” said Dean Wetton, Founder and Managing Director of London-based Dean Wetton Advisory.

“For some of our clients the market was so good, the equity market in particular... that's closed some of their funding gap.”

Consolidation among insurers that buy risk from

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- Dean Wetton, Dean Wetton Advisory

There are signs that a late-year surge kept totals above £40bn. Insurer M&G, for instance, said it completed 11 BPA transactions valued at £1.5bn last year, with the lion's share of that total closing in the fourth quarter. The London-based insurer is now confident of reaching its £3bn-£4bn target by 2027.

Analysts are optimistic that the late-year boost will continue into 2026 and are predicting a record year. LCP forecasts that the full-year total will reach £55bn, while Hymans Robertson is even more bullish, predicting deals in excess of £60bn.

One reason for the decline in the past 12 months was the improvement in endgame options. In January, the government said it was looking at

sponsors accelerated in 2025 with three mergers announced and due to complete this year.

In July, Athora announced it would acquire Pension Insurance Corporation (PIC) and at the end of the year, Utmost Group sold its BPA business to JAB Insurance. And the announcement of the acquisition of Just Group, which has been in the market since 2012, by Brookfield's Blumont Annuity, the most recent insurer to enter the fray, will reduce the number of insurers to 10 from 11 and could constrain capacity, which some observers have said is showing signs of tightening.

“The bigger pension schemes obviously have got larger surpluses... there are quite significant fixed costs associated with all the legal matters, and so on. In those circumstances, the sponsors and the trustees can sit back and think about where they want to go with this now that that surplus option is on the table”

- Mark Austin, Northern Trust

“We were hoping to have more multiple deals because there was a wider choice of providers,” said Wetton.

“The constraint is not necessarily at the insurers themselves, but in the ancillary services to support them, to get them ready for deals,” he added.

While transaction values dipped, deal numbers rose in the first half by as much as 20% year-on-year as more smaller schemes sought buy-ins and buy-outs. Data collected by LCP found that 133 deals were struck in the first six months totalling a relatively small £9.7bn, leading the company

to predict a total of 350 for the whole of the year. That’s in contrast to 2023 and 2024, when £5bn-plus deals were not uncommon.

The decline in £1bn-plus deals suggests that, with more than 2,000 schemes having de-risked in the past few years, there are simply not enough large schemes left to lift the market. As well, remaining large schemes still holding their liabilities may be prime candidates for run-ons because they tend to have greater financial firepower to absorb the costs of doing so.

“The bigger pension schemes obviously have got larger surpluses... there are quite significant fixed costs associated with all the legal matters, and so on,” said Austin.

“In those circumstances, the sponsors and the trustees can sit back and think about where they want to go with this now that that surplus option is on the table.”

Deals at the smaller end of the market may also have been hastened by growth in off-the-shelf, templated deals. Insurers and advisers have put together contracts that have brought a degree of standardisation to the de-risking process, enabling more deals to be transacted. Advisory firm Broadstone, for instance, said more than £1bn-worth of small-scheme deals had been transacted via its SM&RT Insure product, with the firm having advised on £508m of BPA business in 2025.

“It’s democratised the market, and I think it’s a good thing,” said Austin.

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US Plan Sponsors are Turning to OCIOs for Buy-Out Readiness



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The US pension risk transfer market got off to a slow start last year, with total PRT sales down 48% year over year compared to the third quarter of 2024.

But the fourth quarter is expected to make up for it; Aon's U.S. Pension Risk Transfer (PRT): Annual Report Preview said that "After a quiet start to the PRT market in 2025, the fourth quarter was exceptionally busy. There will be more premium settled in the fourth quarter than in the first three quarters combined. We expect \$45 billion to \$50 billion in premium in 2025, subject to final insurer sales reporting."

Clearly, then, demand is there from plan sponsors to de-risk. And arguably, there should be: The generally strong funding levels of US corporate defined benefit pension plans - primarily driven by the sustained environment of higher interest rates, which has significantly reduced the present value of future pension liabilities - means that purchasing a group annuity contract is more affordable than ever.

So, what will be the impact on the PRT market of all these plans electing to run-on?

Negligible, according to Eric Friedman, Partner and Director of Content Development at Aon Investments USA.

"The pension risk transfer market includes both full plan terminations and partial settlements where the plans annuitize a portion of the population, so plan terminations are not the only source of activity in the market. The aggregate premium has been in the \$45-52bn range from 2022-2024, and we expect the final figures for 2025 to come in near this range too. It is hard to predict the future for these figures, especially over a 1-year horizon, but our baseline expectation for the foreseeable future is that PRT activity will stay around the recent levels," he said.

Plenty more premium out there that will need to find an insurance home in the coming years, then. But a significant portion of those schemes looking to terminate - 56% - say they must conduct a major data cleanup effort, from mortality coding to beneficiary records, before they can proceed. Data issues can inflate annuity pricing, delay deals or create a PBGC audit surprise, but this is unlikely to have much of a short-term impact on the market.

Additionally, approximately two-thirds of respondents have not changed their investment policies, despite the higher interest rate environment now compared to, say, five years ago.

"Most of the terminating plans are not terminating for several years, so they may be waiting until the event gets closer to do the data cleanup," said Friedman.

"And as for the investment strategy, at the end of January this year, the 10-year UST was yielding 4.26% and Bloomberg Long Credit was yielding 5.68%. At the end of December 2021, the 10-year UST was yielding 1.51% and Bloomberg Long Credit was yielding 3.10%. So, yields are still much higher today than they were a few years ago. It's not too late to change."

For the 32% of US DB plan sponsors that are looking for a termination solution, only 15% expect this to happen in two years or less. That is plenty of schemes, however - the US market is large, after all - and over half expect it to happen in six years or longer.

Getting their data in order is one thing, but

"The aggregate premium has been in the \$45-52bn range from 2022-2024, and we expect the final figures for 2025 to come in near this range too. It is hard to predict the future for these figures, especially over a 1-year horizon, but our baseline expectation for the foreseeable future is that PRT activity will stay around the recent levels"
- Eric Friedman, Aon Investments USA

But less than a third of them plan to do so. That's according to Aon's 2025 Global Pension Risk Survey - U.S. Findings, which says that 68% of respondents "report a long-term objective other than plan termination."

There is a good argument here, too. Maintaining a run-on strategy allows US plan sponsors to treat a well-funded pension as a strategic financial asset rather than just a liability to be offloaded; the ability to utilise surplus assets to fund other corporate objectives, such as funding DC Plans, offsetting costs for life or health insurance via Section 420 transfers and avoiding the high "exit premium" and excise taxes (often up to 50%) associated with a full plan termination and reversion all count here.

re-evaluating, and changing, their investment approach is another. But, even for schemes looking to terminate, Aon's report says that they could do worse than look at hiring an Outsourced Chief Investment Officer (OCIO) to help them in their 'last mile' journey.

OCIOs, while typically hired by institutional investors to run a medium-long term investment programme, have asset management capabilities that can support plan terminations, even if it may appear counterintuitive on the surface to hire one for what will be only a short-term assignment.

“It is critical to closely monitor the liability duration and take-rate as the lump sum window progresses, adjusting the plan’s duration and liquidity as needed to minimize unintended risks. No-one wants to tell their board the plan can be wound down for a certain additional contribution, and then a few months later, the number turns out to be twice that or more”

- Eric Friedman, Aon Investments USA

The home stretch of a pension plan termination is often the most complicated - including the aforementioned data cleanup - and many plan sponsors are looking for an OCIO experienced in these situations to help them navigate the process.

Indeed, 40% of all survey respondents have already delegated responsibility for their entire investment strategy, regardless of whether they plan to terminate, and there is one particular area where investment expertise makes a difference.

Most plans being terminated run a 'lump sum' window, which warehouses cash for plan members who want to take a one-time cash payment to leave the plan forever (as opposed to receiving a monthly payment for the rest of their lives).

The cost of the lump sums is usually lower than the cost of purchasing annuities from an insurance provider and during the window, the interest rate for the lump sums is frozen for a "stability period" prior to the payments so it does not change after the participants decide whether to take a lump sum.

This changes the liability's sensitivity to interest rates and the take-rate for lump sums is also uncertain, though good guesses can be made based on historical data on take-rates from lump sum windows run by other plans.

But after the lump sums are paid, the liability itself is smaller and has a different duration.

“This means it is critical to closely monitor the liability duration and take-rate as the lump sum window progresses, adjusting the plan’s duration and liquidity as needed to minimize unintended risks. No-one wants to tell their board the plan can be wound down for a certain additional contribution, and then a few months later, the number turns out to be twice that or more,” said Friedman.

Examples like this one mean that, for Friedman, there is likely to be plenty of OCIO hiring to support that \$50bn or so of annual US PRT premium in the coming years.

“It will happen as plan sponsors increasingly find the benefits and costs of this approach attractive,” he said.

“OCIO mandates will allow for more tailored investment strategies and more favorable financial outcomes for terminating plan sponsors.”

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Mortality Rates Scrutiny as Excess Deaths Data Contradicts CMI



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The most recent Continuous Mortality Investigation (CMI) model, CMI_2024, published in the middle of last year, indicated that life expectancy among younger, working-age people in England and Wales had declined, while that of retirement age people had increased.

Life expectancy among the over 65s rose by three months for men and by two weeks for women but shortened by about five months for men and women aged around 35.

The latest data on excess mortality in England, published by the Office for Health Improvement and Disparities (OHID), however, shows that there were significantly fewer deaths not only among the older cohorts, but in the working-age population as well.

The most recent excess death figures released by OHID show a significant decline through the end of 2025 for those of working age. December, for instance, registered almost 4,500 fewer deaths than had been forecast across all age groups and sexes. There were 144 fewer deaths among the 25–49 cohort and 467 fewer for the 50-64 group.

“It's still very useful if you do want to think through what's driving this year's deaths and what might then drive next year's deaths – if the same drivers persist... Back in 2020 it felt like a godsend to see through the mist; at the moment it's now almost a form of mist itself. It can be extra confusing or a distraction”

- Matthew Edwards

Still, the overall picture from the most recent reports is one of continued improvement in mortality, said Amy Walker, Actuary and Client Delivery Lead for the UK at longevity data provider Club Vita. In particular, she suggests that the effects of Covid-19 are over.

“2025 is the first year that we're seeing fairly clear evidence that mortality is returning to pre-pandemic levels,” Walker said.

“That said, it's still too early to say what mortality will do going forward, particularly for under 65s. Keeping an eye on trends in 2026 will be vitally important.”

Excess deaths are calculated by comparing the actual number of people who die in any period with the mortality forecasts. It became the key statistic used by the government to measure the impact of the Covid-19 pandemic.

At the time, it was welcomed, but some observers worry that it has lost its utility.

“People have become over-attached to it. It's still very useful if you do want to think through what's driving this year's deaths and what might then drive next year's deaths – if the same drivers persist,” said Matthew Edwards, a former CMI chair.

“Back in 2020 it felt like a godsend to see through the mist; at the moment it's now almost a form of mist itself. It can be extra confusing or a distraction.”

Clouding the issue is the multiplicity of measurements for excess deaths, which all have different methodologies.

As well as the OHID gauge, the Office for National Statistics (ONS) also presents excess deaths data. Both projections are calculated by extrapolating data from the past five years but the OHID's monthly readings don't take into account population growth, which is adjusted for the high death rates during Covid-19 and covers only England.

Another gauge, published weekly by the UK Health Security Agency (UKHSA), is less granular, treating the working-age population – from 16 to 64 – as a single cohort.

Throughout 2025 and into this year, the OHID, ONS and UKHSA have shown a decline in mortality. The CMI model updates annually, typically around April (it was published in June last year due to substantial changes to the model).

“There is not a unique way to calculate expectations, and this can vary by outlook and methodology,” said Walker.

The contradictions between excess death data and the most recent CMI may be due to the underlying statistical calculations. Models that build projections from historical data are prone to error because there is no guarantee that what happened in the past will happen again in the future.

“It's depressing for an actuary who specialised in longevity modelling to have to say... all of my

models and my colleagues' models and the industry models [have] all been wrong, but by definition you're trying to project the future, so you'd be wrong half the time either way," said Edwards.

Establishing an accurate predictor of mortality is hampered by changing risks to life. The main causes of deaths over the years have changed as treatments for illness and disease have improved and policies have helped reduce deaths by accidents.

A dramatic reduction in smoking through the 1980s and 1990s helped cut deaths from related diseases, for instance. And advances in treatments for cardiovascular illnesses have slashed death rates from heart disease.

"These always sound very promising, but there's very little rocking the overall longevity boat," he said.

"Looking at recent phase-three clinical trials, they are just looking very, very small beer in terms of actually changing anything."

How the latest data on excess deaths affects the next CMI depends on how final data readings play out, but there is some expectation it will show a slightly improved outlook.

"Certainly, when we look back at the CMI_2024 model and compare it with how 2025 actually played out, mortality improved more than what was projected," said Walker.

"Given the volatility we've seen over the past few years, it's understandable to be cautious... but we need to wait to see whether those improvements will be sustained."

"Certainly, when we look back at the CMI_2024 model and compare it with how 2025 actually played out, mortality improved more than what was projected. Given the volatility we've seen over the past few years, it's understandable to be cautious... but we need to wait to see whether those improvements will be sustained"

- Amy Walker, Club Vita

In addition, new jeopardies are emerging; suicide and other so-called 'deaths of despair' such as drug overdoses have risen in recent years as have deaths among the socially isolated.

Consequently, actuaries are watching the evolution of innovations that could extend lives.

Trials for new drugs, especially for cancers, obesity and dementia, are high on their list. One highly anticipated trial is that of multi-cancer early detection (MCED) tests. Even so, Edwards doubts that treatments under trial will have much impact on longevity.

 **Longevity
& Mortality Investor**

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Reporting Change to Provide Regulators With More Transparency into US/Offshore Asset-Intensive Life Reinsurance Treaties



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The US asset-intensive life reinsurance (AILR) market has been growing significantly in recent years. Annuity sales have set record after record and that, coupled with the desire to offload legacy blocks of business, such as universal life with secondary guarantees, have seen US carriers look to alternative capital management solutions as their balance sheets evolve.

And they now have a significant regulatory change to deal with. The new Actuarial Guideline 55 (AG 55) is designed to provide regulators with much more transparency into the asset adequacy of offshore AILR structures, in turn forcing a fundamental shift in how cedants report risk.

The new rules were signed off last August and are effective for asset adequacy analysis of the reserves reported in the 31st December, 2025, annual statement.

"AG 55 largely bubbled up from concerns about whether the increase in cross-border reinsurance activity could pose an increased risk to policyholders," said Jason Kehrberg, Immediate Past Vice President of Life at the American Academy of Actuaries.

"The operational impacts of AG 55 should not be overlooked. The guideline requires detailed asset and assumption support, so it increases data, modelling, and documentation friction for in-scope deals," said Yan Fridman, Consulting Actuary at Milliman in New York.

"This isn't a blanket stop sign for offshore AILR, but it will likely mean increased infrastructure development for certain companies."

One of the features of AG 55 is the new attribution analysis, a mandatory disclosure designed to bridge the gap between US statutory reserves and offshore levels. It provides a step-by-step breakdown of reserve decreases that attributes changes to specific factors like discount rates, mortality assumptions, and policyholder behaviour to ensure transparency in cross-border capital relief.

"It's less about transparency between two frameworks and more about why statutory reserves decrease after ceding to a foreign jurisdiction. It's only transparent for that specific treaty because it provides insights into why the reserves decreased after the deal was done – it could have been due to different mortality assumptions, lapse assumptions or investment returns," said Kehrberg.

"It's going to help the regulators distinguish between what they see as legitimate deficiencies where there are justifiably lower reserves, and the ones that may be due to risky assumptions."

Following on from that is the requirement to ensure that ceded obligations are supported under 'moderately adverse conditions.'

A popular model for actuaries to use to model 'moderately adverse conditions' is the New York 7 - a set of standardized, deterministic interest rate scenarios that subjects a portfolio to seven distinct paths (a baseline level rate, plus three 'up' scenarios and three 'down' scenarios) but ultimately, the model used is at the appointed actuary's discretion.

That might sound subjective on the surface but that's not the case.

"AG 55 introduces targeted prescriptions on breakouts which will provide the regulators with insight into the modelling used for specific components like discount rates, differences in

"The operational impacts of AG 55 should not be overlooked. The guideline requires detailed asset and assumption support, so it increases data, modelling, and documentation friction for in-scope deals...This isn't a blanket stop sign for offshore AILR, but it will likely mean increased infrastructure development for certain companies"
- Yan Fridman, Milliman

"The regulators found that reserves backing some of the liabilities were lower – sometimes, materially lower – which fuelled the concern. AG 55 is designed to provide more information to the regulators so they can address any concerns that lower reserves could put policyholders at risk."

The first reports for carriers with treaties in scope of the new rules are due on 1st April but despite the deadline, this is no joke.

yield expectations and policyholder behaviour, for example,” said Kehrberg.

“But there isn’t a standard, fixed definition of moderately adverse because life insurers in the US and their reinsurance counterparts vary significantly in risk profile. Actuaries need the flexibility to use models that accurately reflect the business that is ceded.”

AG 55 is, then, a significant development which imposes a degree of additional administration – and therefore, cost – onto the cedant. But that doesn’t mean that it is necessarily detrimental to the market overall.

“AG 55 introduces targeted prescriptions on breakouts which will provide the regulators with insight into the modelling used for specific components like discount rates, differences in yield expectations and policyholder behaviour, for example...But there isn’t a standard, fixed definition of moderately adverse because life insurers in the US and their reinsurance counterparts vary significantly in risk profile. Actuaries need the flexibility to use models that accurately reflect the business that is ceded”
- Jason Kehrberg, American Academy of Actuaries

In this initial phase of reporting, there are ‘materiality thresholds’ related to specific treaties, including the ceded reserves being greater than \$5bn, or more than \$1bn of ceded reserves that also exceeds 5% of the ceding company’s life and annuity reserves, to give two examples.

That is not the entire market, of course; indeed, the NAIC estimates that only 100 treaties will be in scope for this initial wave.

But even if the scope of AG 55 were to expand in an attempt to catch a greater share of the market in its net, that doesn’t mean that it will be a drag on the market overall.

“AG 55 effectively makes the rules of engagement clearer – rewarding strong governance, credible stress testing, and transparency. These are all traits that tend to sustain capacity over time,” said Fridman.

“So, we could see AG 55 result in more ALLR opportunities onshore, since the additional requirements put the US ALLR market on more equal footing because AG 55, when reviewed in conjunction with VM-22, could be seen as part of a larger effort by regulators encouraging cedants to do more business in the US as opposed to ceding certain blocks overseas,”

In the meantime, the 1st April deadline looms large for the appointed actuaries, who will have been working on their reporting and modelling since the autumn of last year.

But, thanks to the way AG 55 is written, there is still plenty to do in the next two months, which may pave the way for adjustments later in the year.

“While the spirit of the guideline is clear, the current text leaves areas for interpretation. Cedants should consider working with their regulators and advisors to ensure their interpretation of the guideline is aligned before the initial filing deadline of April 1, 2026,” said Fridman.

“On the regulatory end, departments of insurance may find themselves with a flood of inconsistent information, and so we may see more defined instructions before the 2027 filing deadline.”

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& Mortality Investor

10 Areas To Watch for AI Innovation in Life and Health Underwriting and Claims



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“While AI can improve underwriting and claims processes, it may also produce biases and errors. Therefore, human oversight and transparent communication with users about AI use and its limitations are essential”

In today’s rapidly evolving insurance landscape, the arrival of AI in Life and Health underwriting and claims workflows is no longer a distant possibility - it's already a reality.

Insurers are now investing in AI with the expectation that it can transform underwriting and claims, improving both efficiency and customer experience. Indeed, a boost from AI could not come at a better time – Swiss Re's 2024 UK Life and Health Underwriting and Claims Watch revealed that underwriters and claims assessors are reviewing ever-growing volumes of cases, often with a sizeable amount of evidence to review for each of these cases. AI can help automate repetitive administrative and labour-intensive tasks, such as summarising documents, enabling more efficient case reviews and allowing additional time to address complex, high-value cases.

While AI can improve underwriting and claims processes, it may also produce biases and errors. Therefore, human oversight and transparent communication with users about AI use and its limitations are essential. Additionally, insurance executives considering how AI can support underwriting and claims must ensure compliance with relevant regulations and uphold ethical principles such as transparency, fairness, and accountability.

Given that investing in AI technology requires considerable time and resources, insurers must weigh up in which areas, and at what stage, AI will deliver the most value for their specific business needs.

As Life and Health insurers consider potential use cases for investing in AI, here are 10 areas to consider:

1. AI for summarising claims and underwriting evidence

By incorporating AI into underwriting and claims processes, insurers can reduce manual effort and improve triage, thereby streamlining workflows and facilitating collaboration between departments. Underwriters and claims assessors spend a significant amount of time summarising lengthy medical reports. In the UK, compiling a comprehensive GP report may take a senior underwriter or assessor 45 minutes to an hour or more to summarise. Generative AI can reduce this time by condensing and structuring extensive reports into brief summaries that highlight key risk areas, enabling underwriters and assessors to concentrate on decision-making, which may decrease overall processing times while allowing underwriters and claims professionals to simply validate these summaries, saving time.

2. AI to ease access to underwriting manuals

Underwriting and claims manuals often contain detailed information concerning various disease impairments, products, and ratings, and typically require technical expertise to interpret. Extracting relevant information from manuals, including rating calculators, can be time-consuming. Life Guide Scout is one such example, where generative AI enables underwriters to access the content in the Life Guide underwriting manual in a conversational form.¹

3. AI for supporting customer service

Generative AI, which has already seen extensive use in customer service within sectors like the airline industry, can be leveraged through advanced chatbots trained to handle a wide range of complex queries. This allows only the most nuanced or exceptional issues to require human intervention. The same

“Traditional medical underwriting grids often rely on age and sum insured, adopting a uniform approach. As AI and machine learning evolve, these technologies can learn from historical non-medical limit (NML) outcomes to better predict which applicants may require medical evidence. This predictive functionality reduces dependence on broad, one-size-fits-all procedures and streamlines the underwriting process”

functionality can be used to support insurance applicants with some technical queries which could easily be handled by chatbots, leaving more complex enquiries to be handled by human customer service agents.

4. AI's role in navigating insurance fraud

Insurance fraud remains a persistent challenge across the industry. By rapidly analysing large datasets, AI and machine learning can detect patterns indicative of fraud, aligning suspicious claims with established risk indicators. In addition, predictive models assist in the early identification of potential high-risk claims, enabling proactive risk mitigation.

For instance, AI can highlight underwriting or claims scenarios resembling previous fraudulent or high-payout cases. This gives claims teams the chance to decide what steps might be needed, such as engaging with the customer or sending the case for further investigation.

5. AI as a partner to better target medical evidencing requirements

Traditional medical underwriting grids often rely on age and sum insured, adopting a uniform approach. As AI and machine learning evolve, these technologies can learn from historical non-medical limit (NML) outcomes to better predict which applicants may require medical evidence. This predictive functionality reduces dependence on broad, one-size-fits-all procedures and streamlines the underwriting process.

By identifying applicants with a higher pre-test probability, AI enables underwriters to focus their efforts where the collection of evidence will most significantly make a difference. Conversely, for applicants deemed lower risk, the need for supplementary evidence may be eliminated, expediting processing times and enhancing the overall customer experience.

Other areas could be predictive of specific risks, such as propensity to smoke, which could make cotinine tests more targeted and reduce unnecessary medical evidence spending.

6. AI to better target post-issue sampling

Historically, post-issue sampling within the industry has relied on random selection. The insurance sector, however, is experiencing a shift towards targeted approaches, utilising advanced models to enhance the detection of misrepresentation. AI and machine learning further refine this process by accurately pinpointing cases at higher risk of non-disclosure, thereby reducing costs and increasing detection accuracy. These AI-powered models support both claims and underwriting risk assessment by leveraging historical data to detect potential misrepresentation, efficiently triage straightforward cases, and flag those requiring more thorough human review. This facilitates quicker resolutions and ensures prompt payment of valid claims.

7. AI as an auditing assistant

Underwriting and claims departments dedicate substantial resources to auditing cases to maintain quality and robust risk management. This involves detailed reviews of decisions to identify inconsistencies or deviations from established protocols.

The integration of real-time machine learning can streamline this task by promptly recognising discrepancies as they arise, thereby bolstering efficiency and consistency. Machine learning algorithms enable rapid analysis of extensive data, highlighting issues that might otherwise escape human auditors.

This means that quality checks could be done in real time, enabling quicker corrective action. This allows auditors to concentrate on strategic initiatives, including the development of enhanced risk management frameworks, optimisation of claims/underwriting processes, and adherence to regulatory requirements.

“By analysing vast amounts of individual and contextual information from various sources, such as benchmarking against historic records, pulling in electronic health records, wearables, and historical claims information, AI systems can detect patterns and factors that influence each person's level of risk. This means AI can tailor assessments to reflect unique circumstances, enabling more personalised risk assessments. This approach enhances accuracy and minimises errors, while delivering a streamlined, efficient onboarding experience”

8. AI as a sparring partner for evolving underwriting and claims philosophies

Underwriters and claims professionals are frequently required to synthesise information from disparate systems and data sources to fully understand the impact of evolving underwriting and claims philosophies on portfolio performance.

The emergence of generative AI, in conjunction with the implementation of unified data lakes, is now transforming this landscape by enabling real-time learning and seamless integration across platforms.

For example, information derived from claims can be instantly analysed and fed back into underwriting models, allowing for timely and informed adjustments to philosophy and practice. By continuously updating risk assessments and pricing strategies in light of the latest data, insurers are empowered to respond proactively to emerging trends and anomalies.

9. AI as a tool to facilitate risk assessment

By analysing vast amounts of individual and contextual information from various sources, such as benchmarking against historic records, pulling in electronic health records, wearables, and historical claims information, AI systems can detect patterns and factors that influence each person's level of risk. This means AI can tailor assessments to reflect unique circumstances, enabling more personalised risk assessments. This approach enhances accuracy and minimises errors, while delivering a streamlined, efficient onboarding experience. Nevertheless, it remains essential to consider the relevant legislative framework to ensure compliance with applicable AI regulations.

The resultant efficiencies from AI-enhanced processes can enable teams to concentrate greater efforts on strategic, high-value cases - such as designing robust risk management frameworks, optimising process flows, and ensuring alignment with regulatory requirements. Ultimately, these developments enhance the insurer's ability to deliver fair outcomes to customers, strengthen competitive advantage, and ensure the organisation remains at the forefront of innovation in a rapidly evolving market.

10. AI as a tool for continuous improvement

Underwriting and claims departments can also leverage AI to nurture a culture of continuous improvement. In one example, an insurer may implement an AI-powered auditing tool that reviews underwriting or claims decisions in real time. The system flags inconsistencies or deviations from best practice, instantly notifying the underwriting and claims team. Each flagged case is then discussed collaboratively, allowing the team to learn from mistakes or identify where processes could be streamlined. Over time, the department builds a repository of lessons learned, which informs training sessions and updates to underwriting guidelines. This continuous feedback loop not only improves accuracy and efficiency but also encourages a proactive approach to risk management and professional development of staff.

In summary, the next wave of AI is here and promises greater efficiencies for underwriting and claims professionals. The integration of AI into these functions can enable real-time data analysis, personalised risk assessments, and streamlined processes, empowering insurers to enhance quality control, respond proactively to trends, and focus on strategic initiatives. Well-designed AI systems can enable professionals to focus on what matters most - delivering smarter decisions and better outcomes for customers.

Amidst these technological advancements, it is also crucial to maintain a human-centric perspective, carefully weaving the human-in-the-loop into human-AI workflows to ensure expert oversight and ethical decision-making. Human judgement remains vital in interpreting complex scenarios, validating AI outputs, and addressing nuanced cases that require empathy and

“Insurers must also carefully assess where and when to invest in AI to maximise return on investment. Those who engage thoughtfully with AI's potential – balancing innovation and responsibility – will likely lead the charge in a rapidly evolving industry”

contextual understanding. Moreover, strict adherence to applicable regulations and responsible AI principles is essential to uphold transparency, fairness, and accountability, safeguarding both customers and the organisation from unintended risks.

Insurers must also carefully assess where and when to invest in AI to maximise return on investment. Those who engage thoughtfully with AI's potential – balancing innovation and responsibility – will likely lead the charge in a rapidly evolving industry.

Febby Mulewa is Head UW & Claims Portfolio, Market Units L&H Reinsurance at **Swiss Re**

Maura Feddersen is Behavioural Research Manager, CUO L&H Reinsurance at **Swiss Re**

Footnotes:

1. <https://www.swissre.com/reinsurance/life-and-health/underwriting-excellence/life-guide.html>

You can find the original version of this article, which is reproduced here in full, at <https://www.swissre.com/reinsurance/insights/10-areas-to-watch-for-ai-in-claims-and-underwriting.html>

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Q&A

Alan Greenlees

Professional Trustee and Head of Risk Transfer, ZEDRA



Author:
Greg Winterton
Contributing Editor
Longevity &
Mortality Investor

The UK's pension risk transfer market posted another strong year in 2025 both in terms of activity and aggregate premium transacted. Greg Winterton caught up with Alan Greenlees, Professional Trustee and Head of Risk Transfer at ZEDRA, to get his insights on a range of sub-topics within the space as 2026 begins.

GW: Alan, given the legislative push to make it easier for well-funded schemes to extract surplus, how has your 'default' advice changed? Are you seeing a genuine shift in professional trustee appetite toward 'running on' for surplus generation rather than a de-risking solution?

AG: The BPA market continues to thrive. Official numbers for 2025 will be released later in the year, but we are expecting between 300-350 deals to be confirmed and over £40bn of volume. The change in surplus extraction rules clearly hasn't dampened appetite so far.

The regulations are making it more viable for schemes to run-on, either indefinitely or to defer a BPA transaction for a number of years, whilst sharing surplus between the sponsor and trustees for funding benefit augmentations and discretionary increases. This may be a prudent approach for schemes that have data and administration challenges for example, and need the time and resources to resolve in advance of a transaction. The changes in surplus rules will not have moved the needle for those already considering it, but likely acted as justification for those who were on that path.

A scheme's individual endgame journey will be dependent on a number of factors, key to which is the risk appetite and views of both the trustees and sponsor. Overall, the benefits of a BPA transaction are well known and it remains an attractive option for many. The traditional view of a BPA transaction being the ultimate goal for a scheme, and it being the 'gold standard' is still present, but less dogmatic as previous. Advisors and trustees are more

cognisant of alternatives to BPA and no-one should be sleep-walking into a BPA transaction without a fully informed discussion beforehand.

The endgame is also directly linked to the size of scheme. For example, it is more difficult for a £150m pension scheme to run-on and generate surplus as a scalable solution, compared to a £1.5bn scheme. I do expect several +£1bn schemes to devise innovative run-on solutions and generate surplus, underpinned by a strong covenant of course. Such run-on solutions need to have sufficient guardrails and flexibility that they can easily pivot towards a BPA transaction if experience moves against them.

GW: With regard to illiquid assets, what are the most effective strategies you've seen for managing them on the journey to buy-in or buy-out? Are you using more secondary market sales or deferred premium structures, and if so, why?

AG: The secondary market has grown in recent years, with a number of advisors facilitating these trades. These platforms can remove a lot of the complexity of dealing directly but can be expensive to use and require a level of investment knowledge to successfully navigate. But the benefits can be worth it.

Insurers offering a deferred premium does help, as does the insurers who offer to receive illiquid assets in specie. In specie transfers are not common and it is safe to say that the insurer is keen to receive such assets; instead, they offer such a service purely as a means to facilitate the BPA transaction, rather than it representing an attractive investment opportunity. We have also seen schemes sell down their illiquid assets with a material haircut (sometimes as much as 30%) in order to meet the tight timescales of a deal. Whilst trading at a lower price may seem like poor judgement, that should be weighed up against the ongoing running costs of a scheme and the pricing opportunities available.

Continued on next page...

However, it is worth putting illiquid assets into perspective. They are not a challenge for most schemes in the market, including those who did not access them. Even where illiquids did once pose a challenge, the market generally responded very well (and quickly) to provide workable solutions. Illiquid assets will still be a challenge for some schemes but it is not as much of a barrier as previously and certainly would not feature in my 'top five' of current challenges the market is experiencing.

GW: What's your view on some of these 'off the shelf' solutions from insurers – and even now, advisors – for smaller schemes looking to transact? What's working well, what could be improved?

AG: The market has continued to innovate in several areas, with smaller schemes being one of the beneficiaries of the new wave of 'off the shelf' solutions. Smaller schemes – which I take to mean those with assets sub £100m – are now better served with streamlined insurer solutions and delivery tools from advisors. It has enabled schemes to have access to more competitive pricing and generally more engagement from insurers. Trustees and sponsors of those smaller schemes will have had a "take it or leave it" price from one, perhaps two insurers in the past. We are now seeing a much more competitive landscape and schemes able to look beyond pricing in order to deliver the best outcomes for the members.

Whilst this is certainly an improvement, the streamlined smaller scheme solutions are not yet at the panacea stage. We see a lot of variation in these streamlined solutions and there is a material amount of input required by administrators and advisors to complete these templates. This inevitably comes at a cost as well, which may be challenging for those schemes operating on a budget. A level of standardisation or universal insurer template is very much high up on the trustee wish list.

GW: The 2025 Pension Schemes Bill simplified the 'gateway tests' for superfunds like Clara-Pensions and last year also saw the entry of a new superfund, TPT, into the market. Are superfunds set to become a mainstream competitor to the BPA market, or are they still only suitable for specific 'distressed' or 'unsupported' scenarios?

AG: There are a number of alternative solutions to the BPA route that continue to provide optionality for schemes. The first few Clara transactions were quite niche and for distressed sponsors, but Clara, and TPT, are capable of catering for much broader schemes. Both Clara and TPT have the scale behind them to be very successful in this market and have clearly thought about their propositions.

Whilst these alternatives will gather interest and the superfund market will grow, they are unlikely to be a direct competitor to the BPA market, both in terms of number of transactions and deal volume. This is more due to the size and developed nature of the BPA market. However, I suspect that the insurer commercial teams will continue to monitor how the superfunds evolve and if they develop into genuine competitors.

GW: With the pensions dashboards finally active and The Pensions Regulator focusing on administrative resilience, how are you evaluating an insurer's administration and digital capabilities during the beauty parade?

AG: Member experience is by far and away the most critical non-pricing factor that we focus on when assessing insurers' proposition. In some selection exercises, the member experience will even trump price as the principal factor.

Trustees expect that administration standards are no worse as part of a BPA transaction, and in many cases, it may be reasonable to expect a stepped improvement by moving to an insurer. Therefore, focusing on the insurers' administration capability, both current and for the future, is really important. This extends to resourcing, service levels, online member services and the digital retirement journey. And this goes hand-in-hand with questions around the cyber resilience of their systems, especially when so much sensitive data is at stake.

GW: There has been increased scrutiny from the Prudential Regulation Authority (PRA) regarding insurers' use of offshore funded reinsurance to back these massive deals but the life insurance stress tests showed little problem (based on the PRA's criteria). How deeply are you now looking 'under the hood' of an insurer's capital structure, and has this changed how you view long-term security for your client's members?

AG: This is an interesting area and receives focus when evaluating the financial strength of an insurer as part of the due diligence. My view is that the onward sharing of risk is up to the individual insurer. Funded reinsurance is one solution to mitigate that risk, but the extent to which they do this or via alternative methods, is the insurer's prerogative. It is not an issue that trustees are concerned about in the majority of transactions, unless highlighted as such in the financial due diligence. Stress testing is a useful analysis to look under the bonnet, and it is an area which the PRA is scrutinising carefully. I do expect more developments in this area, from PRA and insurers, whilst it continues to receive focus.

Alan Greenlees is a Professional Trustee and Head of Risk Transfer at **ZEDRA**

Higher Sales and Lower Lapse Counts but Rising Exit Values for US Life Insurance Market



Author:
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 W L Consulting

“The types of policy most commonly traded in the life settlement secondary market, for example, are only a subset of the whole range of life insurance products issued, so a trend in total business may not perfectly reflect the trend in tradeable products alone”

In early November last year, industry group the American Council of Life Insurers (ACLI) published its annual Life Insurers Fact Book, the organisation's deep dive into a range of sub-categories of the US life insurance industry. In December, we looked at 2023's developments in surrenders, new business and solvency and in January, we took in the US life insurance market as a whole (its health; size and outlook). This third and final article looks at policy sales, which should be of interest to a range of asset managers, including life settlements, life ILS, asset intensive life reinsurers, and more.

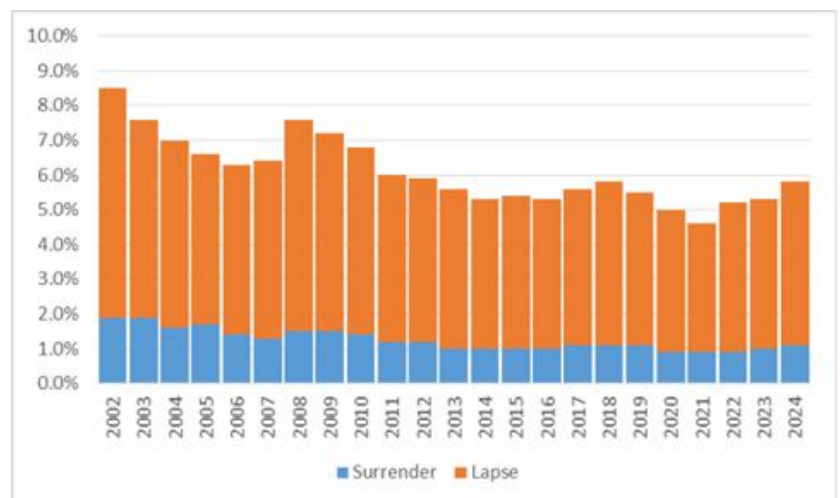
This most recent ACLI report refers to the year 2024 which, at the time of writing, is already just over a year old. And the information is of a low granularity, so one needs to be aware that there are some generalisations being used to imply trends. The types of policy most commonly traded in the life settlement secondary market, for example, are only a subset of the whole range of life insurance products issued, so a trend in total business may not perfectly reflect the trend in tradeable products alone.

Policy Cancellations

Policy exits come about as death or maturity claims and, possibly most commonly, through lapse (with no value) or surrender (if there is an intrinsic value) although the two may be aggregated in some statistics. The ACLI provides cancellation rates split by surrender and lapse and then split the figures between individual and group policies; we will focus on the former.

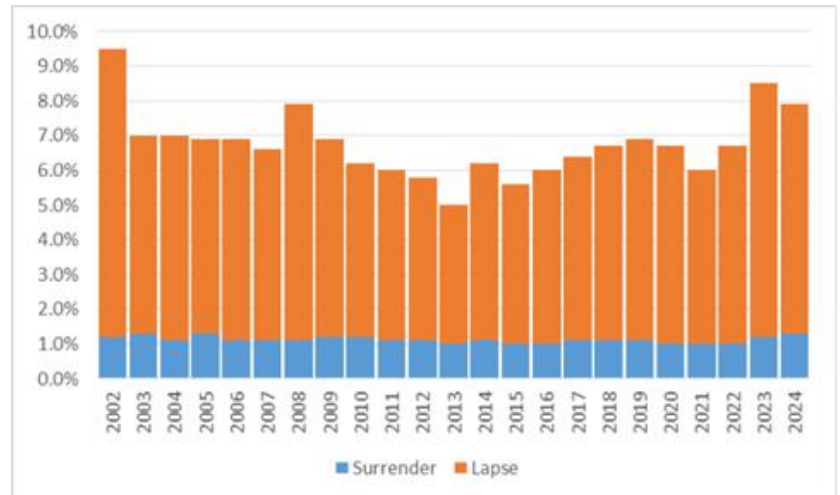
The numerical values in Figures 1 and 2 below from 2024 (2023 in parentheses) are: by face value, lapses 4.7% (4.3%), surrenders 1.1% (1.0%); by numbers of policies, lapses 6.6% (7.3%), surrenders 1.3% (1.2%).

Figure 1: Individual Policy Cancellations by Face Amount



Source: ACLI Life Insurer's Fact Book, 2025 Edition

Figure 2: Individual Policy Cancellations by Number



Source: ACLI Life Insurer’s Fact Book, 2025 Edition

“Policyholders wanting to dispose of unwanted policies are the lifeblood of today’s life settlement secondary market, but new business is the material being laid down to fuel the market in the future...In a scenario where all other things are equal, new business growth ought to be at least as fast as US population growth, and when you add in price inflation and economic growth, one would hope for some of that to drive up new business volumes though policyholders taking out new policies with larger amounts of cover”

These two charts tell a story in itself. Clearly, 2023 saw an uptick in cancellations compared to 2022 and 2021 but the increment was fairly small when measured by aggregate face amount, yet significant when measured by policy numbers. The implication is that much of the cancellation activity was on policies with smaller than average face amount; when measured by number, it is notable that the proportionate increase in the orange lapse bars is much greater than the increase in surrenders for value.

The figures for 2024 are, perhaps, more surprising. Measured by face amount, both lapses and surrenders were up compared to 2023, and notably so, as the total step-up was greater year-on-year than from 2022 to 2023. Measured by number of policies, we see a more unusual result; overall cancellations were down, but the reduction was entirely due to a drop in lapses because the number of surrenders was up. Although fewer lapses occurred, those that did take place were larger policies. Surrenders, on the other hand, seemed to occur in roughly the same proportion by face and number, suggesting little change in average face being surrendered.

Total surrender values paid out on individual policies rose 23.7% in the year from \$35.8bn to \$44.2bn. Compared to a surrender rate rising from 1.2% to 1.3% or +8% (or up to 17% if the maximum rounding differential were assumed), it shows a large rise in per policy surrender value.

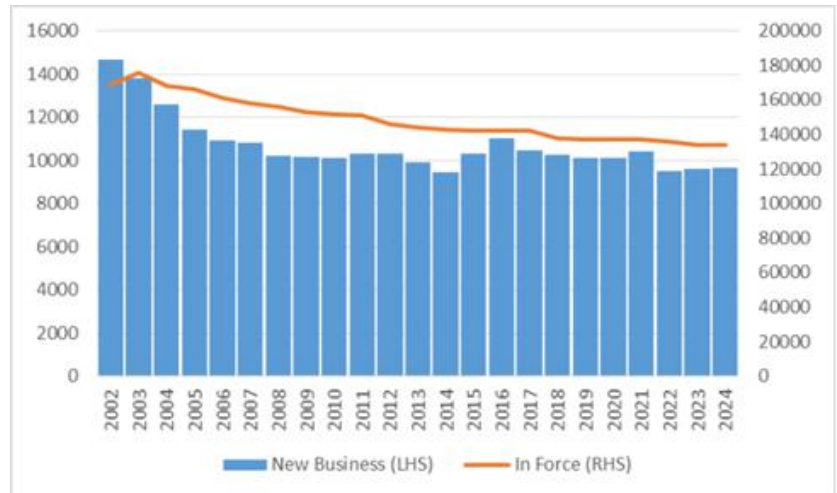
In absolute terms, the numbers of surrenders are large. Of the \$14trn of face value of individual policies in force, \$154bn was surrendered. Of the 134 million policies in force, 1.74 million were surrendered. The average surrender value, \$24,400, was not huge, and the average face amount involved is also small at around \$90,000. Although the secondary life settlement market is less interested in policies of this size and is focussed more on policyholders of a specific age profile, it nonetheless seems highly likely that there is plenty more potential origination available than currently reaches the life settlement market.

New Policy Sales and In Force

Policyholders wanting to dispose of unwanted policies are the lifeblood of today’s life settlement secondary market, but new business is the material being laid down to fuel the market in the future. Replacement is the minimum requirement for sustainability, but, in an ideal world, the business book would be expanding. In a scenario where all other things are equal, new business growth ought to be at least as fast as US population growth, and when you add in price inflation and economic growth, one would hope for some of that to drive up new business volumes though policyholders taking out new policies with larger amounts of cover.

When we compared the growth in in-force life policy reserves with general US GDP last month we saw that in the last two or three years, sales volumes have become slightly decoupled. When we look at the aggregate in-force book of policies over the last couple of decades, we do see a pattern of decline, but it has been relatively slow. In recent years, new business has stabilised at a new lower level since the millennium, but it is slightly disappointing that there is no obvious uptick.

Figure 3: Individual Policies – Numbers (000s)

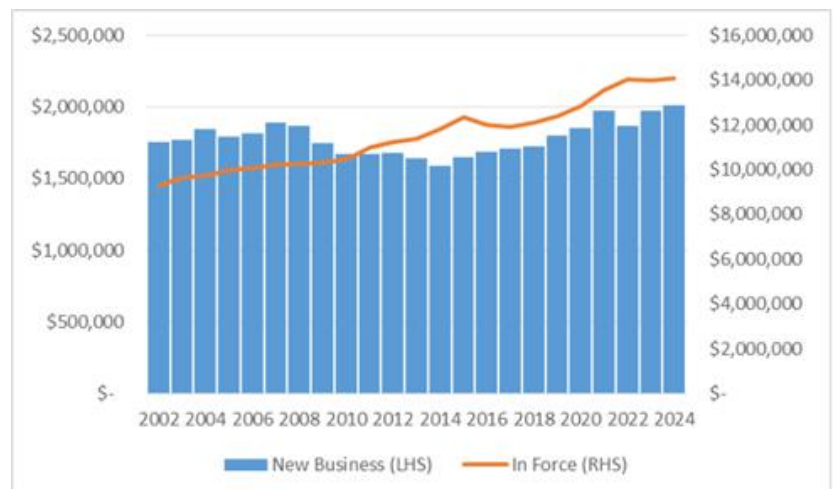


Source: ACLI Life Insurer’s Fact Book, 2025 Edition

In Figure 3, we see the in-force population holding steady at 134,000,000 (the orange line on the right hand scale). New sales hover just around the 10 million mark, with the new sales (blue bars, left hand scale) up on 2023 by just 60,000 policies (or 0.6%, which might be considered in line with population expansion).

On the alternative measure of aggregate face amount, the picture is more encouraging. New business is rising and so is the in-force total. Figure 4 below captures not just changes in population headcount, but the gradual uprating of the levels of cover needed per policyholder, partly through inflation, and partly from economic growth and prosperity.

Figure 4: Individual Policies - Face Amount (000,000s)



Source: ACLI Life Insurer’s Fact Book, 2025 Edition

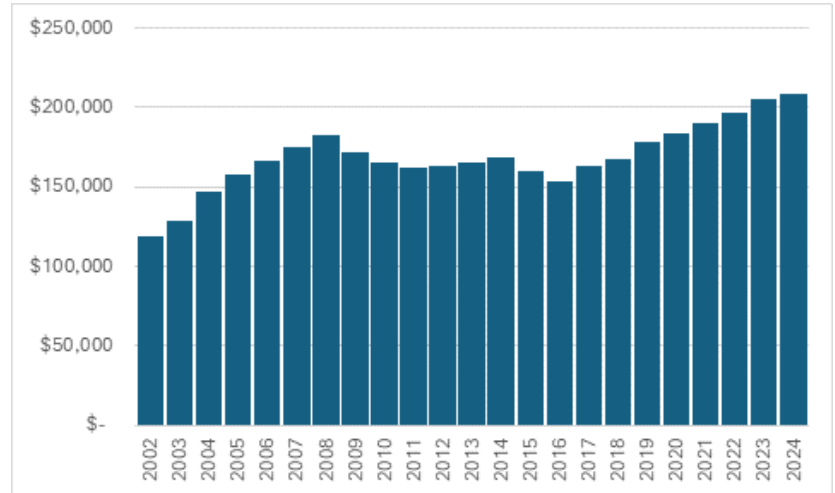
The aggregate face amount of new business is increasing; new face just exceeded \$2trn for the first time, a 2% increase year-on-year, and the total in-force also hit a new record at \$14trn. The larger increase in new face amount

“The aggregate face amount of new business is increasing; new face just exceeded \$2trn for the first time, a 2% increase year-on-year, and the total in-force also hit a new record at \$14trn”

compared to numbers looks healthy, but is not quite keeping pace with price inflation.

The average face amount of new business crept up to \$208,000 (Figure 5 below) which represents an increase of 1.4%. Of the 2% total growth in new business, clearly, 1.4% is from an increase in policy size and the other 0.6% is from the growth in numbers of new policies issued. That rate of increase in policy size of 1.4% is lower than both CPI and Core inflation at 2.9% and 3.2%, respectively.

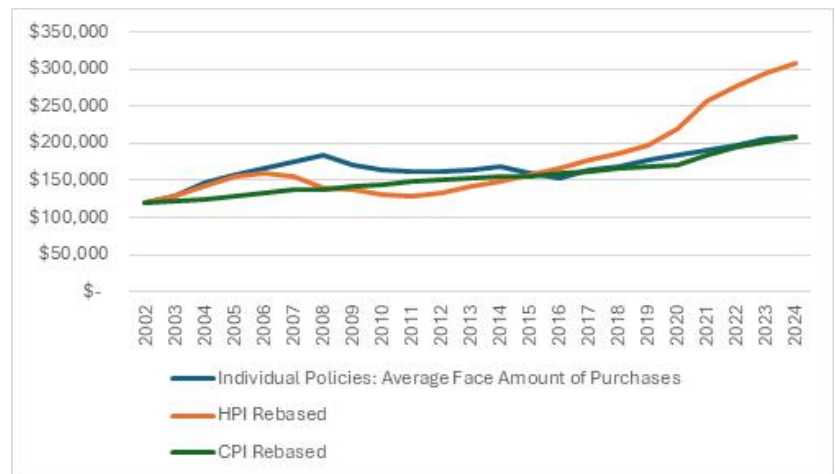
Figure 5: Average Face Amount for New Business



Source: ACLI Life Insurer's Fact Book, 2025 Edition

Within the group "Individual Life Insurance" are a number of different products, notably Term Assurances (both level and decreasing) and Whole of Life policies. The former tend to be used for covering temporary risks, such as repaying an open home purchase loan should a wage earner die early and one would expect the average face amounts on these products to rise in line with or close to house prices. Whole of Life contracts are used partly as savings vehicles but also to cover liabilities on death and are more likely to rise with general rises in wages (or just price inflation).

Figure 6: Average Face of all new Individual Life Insurance Policies vs House Prices vs Consumer Prices



Source: ACLI Life Insurer's Fact Book, 2025 Edition; FHFA, FRED

The blue line in Figure 6 is the average face amount from Figure 5. The orange line is the 2002 value for face amount indexed by the HPI index for all home purchases from the Federal Housing Finance Agency. Clearly, there is some correlation, with both experiencing a dip post-Global Financial Crisis, but as

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the blue line represents a composite of all insurance types, the correlation in recent years is not as strong. CPI, the grey line, shows no such dip and is continuously ascending throughout the study period.

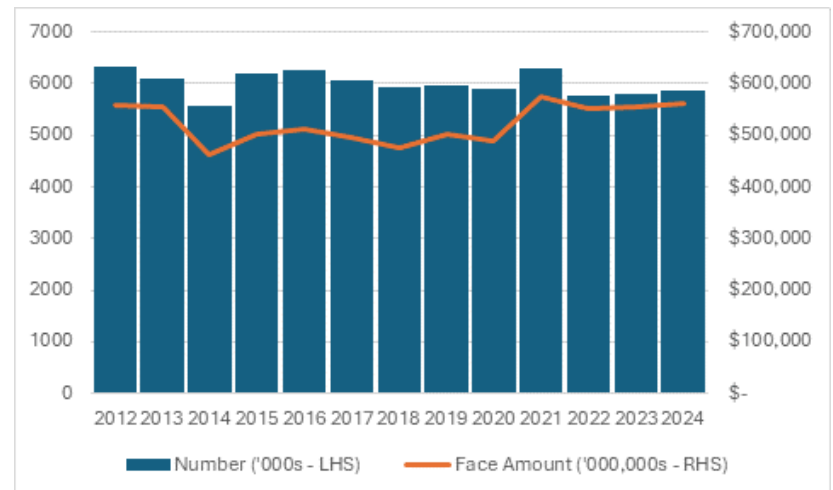
Over the whole period, the correlation is greater with the CPI than with the HPI, but neither provides a perfect fit. If we could split out the two broad types of policy, however, each might correlate better to a particular index.

As for now, if we assume that term policies - which are roughly two-thirds of new business by face amount - are rising at a rate somewhere between HPI and CPI, then the conclusion one would draw is that the face amount on WOL and Endowment policies is not rising much at all and is probably falling in real terms.

Whole of Life and Endowments Specifically

Back to the future fuel for the life settlement market, which focusses on Whole of Life Policies, the ACLI data gives us some information here. WOL is aggregated with endowments, but those are a very small component and don't detract from the conclusions we can draw.

Figure 7: Individual WOL and Endowment Policy New Business



Source: ACLI Life Insurer's Fact Book, 2025 Edition

We are only able to show data back to 2012 for this specific subset of life policies but the picture mirrors life policies as a whole. The blue bars in Figure 7 are a subset of the blue bars in Figure 3 and the broad shape of the curve within the two is similar. The orange line in Figure 7 compares with the blue bars in Figure 4 and in this comparison of new face amount, there are differences. The spike in 2021 is pronounced in both, as is the subsequent fall in 2022, but on this measure using face values, 2023 and 2024 have not recovered to 2021 levels for WOL and endowments alone, whereas for all life policies, they have. This shows that whilst new WOL policy sales are stable, there is very little growth in face amount.

In conclusion, for the life settlement market, new policies that will fuel future trades continues to be issued in healthy volumes, but in real terms, are slowly contracting. On the one hand, other things being equal, this ensures the market should endure, but on the other, it suggests that growth will have to come not from naturally increasing policy size, but from the market needing to make further inroads in increasing the volumes of cancellations that reach it.

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