

Defined Benefit Pension Fund Investment Strategies in Focus Amid Gilts-Linked Pension Risk Transfer Pricing

More UK Life Insurer Equity Release Securitisation on the Horizon?

Update in Delaware Estate Litigation Case Provides Added Clarity to Life Settlement Market



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Editor's Letter, Volume 2, Issue 03, March 2026



Chris Wells
Managing Editor
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Mortality Investor**

A recent Delaware Supreme Court opinion addresses the applicability of the state's statute of limitations in STOLI policy estate litigation. *Greg Winterton* spoke to **James Westerlind**, Partner at **ArentFox Schiff**, to get his thoughts on the case so far in Update in [*Delaware Estate Litigation Case Provides Added Clarity to Life Settlement Market*](#).

For the past few years, UK-based insurance firms have been buying more UK sovereign bonds and fewer corporate credit and other similar instruments – a reversal of the pattern of just a few years ago. *Mark McCord* spoke to **Michael Abramson**, Partner and Risk Transfer Specialist at **Hymans Robertson**, to learn more about how this gilts-based approach has fed through to the prices they offer pension schemes entering into bulk purchase annuity transactions in [*Defined Benefit Pension Fund Investment Strategies in Focus Amid Gilts-Linked Pension Risk Transfer Pricing*](#).

The UK's equity release securitisation market has re-emerged in recent years as a tool in a life insurer's capital optimisation effort. *Greg Winterton* spoke to **Ben Grainger**, Partner at **EY**, and **Neil Hamilton**, a Partner at **Mayer Brown**, to get their thoughts on whether this is a sustainable trend in [*More UK Life Insurer Equity Release Securitisation on the Horizon?*](#)

WTW's De-Risking Report 2026 suggests that longevity swaps are becoming increasingly interesting to UK defined benefit pension schemes and forecasts £20bn worth of transactions this year. *Mark McCord* spoke to **Matt Wiberg**, London-based Bulk Annuity and Longevity Hedging Specialist at **WTW** and **Matthew de Ferrars**, Pensions Partner at **Pinsent Masons** for their thoughts on the outlook for the space in [*Longevity Swap Activity Expected to Rise as Run-Ons Look More Attractive*](#).

Fitch Ratings has a 'neutral' outlook for North American life insurers for 2026 despite a more challenging backdrop, as strong capital, prudent asset/liability management, and liquidity will help issuers to withstand declining policy rates, slowing economic growth, heightened macroeconomic volatility, and geopolitical uncertainty. More from Fitch's Insurance Team's Senior Director **Jamie Tucker**, CFA, CPA and Director **Jack Rosen** in [*US Life Insurers' Ample Capital, Liquidity to Support Ratings in 2026*](#), a guest article.

DBRS Morningstar says that the Australian securitisation market could hit AUD\$100bn in 2026, in part because "Australian securitisation remains attractive for offshore investors because of the country's historic stability, uncertainty in other markets, and Australia's increasingly diversified economy and limited direct exposure to US tariffs." *Greg Winterton* caught up with **Dr. Joshua Funder**, CEO and Managing Director of **Household Capital**, to discuss the current state of and outlook for the reverse mortgage sector of the Australian securitisation market in this month's [*Q&A*](#).

While the US life/annuity offshore reinsurance sidecar market has seen remarkable expansion recently, momentum cooled slightly last year. *Greg Winterton* spoke with **Tim Zawacki**, Principal Research Analyst at **S&P Global Market Intelligence**, to discuss what the primary drivers of future activity might be in [*Regulatory Changes Abound in Offshore US Life/Annuity Sidecar Market but Macro Picture Is the Most Likely Determinant of Further Growth*](#).

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

Update in Delaware Estate Litigation Case Provides Added Clarity to Life Settlement Market



Author:
Greg Winterton
Contributing Editor
**Longevity &
Mortality Investor**

A recent opinion issued by the Delaware Supreme Court in an estate litigation case has provided the life settlement market with a degree of certainty – but, for now, only a degree.

In *GWG DLP Master Trust Dated 03/01/06 v. Estate of Frank* (*Frank*, originally filed as *Estate of Norman Frank v. GWG DLP Master Trust Dated 03/01/06, et al.*), the plaintiff (the estate) argued that the \$5m death-benefit life insurance policy was a stranger-originated life insurance (STOLI) policy, which would be illegal in Delaware, and therefore, void under Delaware law; the consequence being that the estate of the insured decedent could sue the owner/beneficiary of the policy at the time of death under 18 Del. C. 2704(b) to seek to recover the benefits paid to that owner/beneficiary by the life insurer.

The defendant, DLP Master Trust Dated 03/01/06, argued that the claim fell outside of Delaware's three-year statute of limitations, which would bar the estate from recovery (and provide something of a 'time-shield' for investors against long-dormant STOLI claims).

“The Court held that an estate’s claim to recover the proceeds of a life under 18 Del. C. 2704(b) is an action based on a statute, which is governed by 10 Del. C. 8106(a), which prescribes a three-year statute of limitations for actions based on a statute”

- James Westerlind, ArentFox Schiff

The United States District Court for the District of Delaware, where the action is pending, ‘certified’ the question to the Delaware Supreme Court, essentially seeking a definitive ruling from the state’s highest court. The opinion returned was indeed definitive.

“The Court held that an estate’s claim to recover the proceeds of a life under 18 Del. C. 2704(b) is an action based on a statute, which is governed by 10 Del. C. 8106(a), which prescribes a three-year statute of limitations for actions based on a statute,” said James Westerlind, a Partner at ArentFox Schiff in New York.

The estate in *Frank* argued that there is no

statute of limitations applicable to an estate’s lawsuit to recover the benefits of a STOLI policy because, under the Delaware Supreme Court’s recent opinion in *Malkin*, section 2704 is a codification of Delaware’s common law. But the Delaware Supreme Court in *Frank* clarified that while the insurable interest requirement in section 2704 existed at common law, the remedy in subsection (b) of the statute, which provides the insured’s estate with a cause of action to recover the benefits of a policy issued in violation of the insurable interest requirement, did not exist in the common law and, therefore, was a remedy first created by the statute. As such, a cause of action by an estate under section 2704(b) is an “action based on a statute,” which is subject to the three-year statute of limitations under 10 Del. C. 8106(a).

So, the three-year statute of limitations, confirmed here by the Delaware Supreme Court, would seem to be helpful to the life settlement industry because asset managers holding policies where the policy maturity was more than three years ago would therefore have significantly lower litigation risk to factor into their models.

If only it were that simple.

There remains something of an ‘elephant in the room’, which is that the court didn’t actually clarify what the trigger event is from which the statute of limitations applies — in legal jargon, when the cause of action under section 2704(b) begins to accrue.

The reason they didn’t is simple.

“The Delaware Supreme Court wasn’t asked what the event is or was that starts the clock on the three-year time period,” said Westerlind.

“They were only asked what the statute of limitations is, and they responded to that question.”

So, for the time being, the life settlement market awaits more clarity with regards to this issue. *Frank* will now continue to be heard by the Delaware District Court, and there is no timeline currently as to when proceedings will resume, but when it does, all eyes will now focus squarely on what the District Court decides is the ‘accrual date’.

The Court already has two options. The defendant argues that the accrual date begins upon the payment of the death benefit. This view drove its argument, as the death benefit was paid on

February 19, 2019, which would make the statute of limitations date February 19, 2022; the lawsuit was filed on May 18, 2023, more than a year later. The plaintiff, however, argued the clock couldn't start until he was appointed as executor of the estate, which didn't happen until 2023.

So, the life settlement market will have to wait a little longer to find out which one prevails – or whether another does.

Delaware has delivered good news and bad to the life settlement market over the years. Recently, *Wells Fargo Bank v. Estate of Malkin*, a 2022 Delaware case, ruled that 'innocent' downstream investors could not use standard commercial defences (like the Bona Fide Purchaser rule) to keep death benefits if the policy was deemed a STOLI one.

“Investors generally like legal certainty and while *Frank* left a number of questions open, this opinion is a step towards a more defined structure with regards to estate litigation risk in Delaware,” said Westerlind.

Attorneys for the plaintiff and the defendant did not take the opportunity to comment prior to publication.

“Investors generally like legal certainty and while Frank left a number of questions open, this opinion is a step towards a more defined structure with regards to estate litigation risk in Delaware”

- James Westerlind, ArentFox Schiff

But the *Frank* decision, albeit in dicta, explained that common law defenses, including but not limited to a statute of limitations defense, is available to a defendant investor in a STOLI case if the defense is viable under its elements.

The *Frank* case will be a closely-watched one by the life settlement market, but for now, this latest update does provide the market with some reassurance.

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Defined Benefit Pension Fund Investment Strategies in Focus Amid Gilts-Linked Pension Risk Transfer Pricing



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Trustees of defined benefit (DB) pension schemes looking to de-risk through bulk purchase annuity (BPA) buy-ins or buy-outs are thinking like insurers as their counterparts switch investment strategies.

For the past few years, UK-based insurance firms have been buying more UK sovereign bonds and fewer corporate credit and other similar instruments – a reversal of the pattern of just a few years ago.

This gilts-based approach has fed through to the prices they offer pension schemes entering BPA transactions that are at the core of the surge in activity in the pension risk transfer market.

That switch poses a potential headache for trustees and sponsors. When schemes are ready to de-risk, they will either liquidate their assets to pay for the deal or pass on those assets as part-payment.

Consequently, insurers are increasingly baulking at scheme portfolios that include corporate credit assets.

To gauge the value of their non-gilt holdings, insurers compare the returns they can get on them with those available from interest-rate swaps, so-called risk-free rates that reflect the pay-outs that can be had if cash is simply deposited with the Bank of England. The final calculation also takes into account the matching adjustment permitted on credit spreads, and the fundamental spread, which is an allowance for future defaults and downgrades of the debt.

For many years the yield spread between corporate bonds and swaps had been wider than that on gilts – meaning they offered better value. But in the past few years, corporate-bond spreads have tightened.

This is partly because higher interest rates have made it less appealing for company finance bosses to sell debt, reducing liquidity in the market for such instruments and lowering yields on outstanding obligations.

At the same time, rising yields on government bonds have widened gilt spreads as the UK government has issued record amounts of debt to fund increased spending programmes amid sustained economic weakness.

“Investors want more compensation for holding long-dated UK debt, owing to uncertainty about the long-term growth and inflation outlook, and the durability of fiscal plans,” Hymans Robertson wrote in its *2026 Risk Transfer Report*.

Tracking the trend hasn’t been easy given that BPA pricing methodologies and insurers’ investment holdings aren’t always made public.

Thanks to a handful of announcements from insurers and a bit of detective work, market participants have been able to ascertain the switch to gilts. Legal and General explicitly said in its 2024 full-year results, released last March, that it had adopted a gilts-based investment strategy in the UK.

“This gilts-based approach results in a highly attractive return on capital,” it wrote, adding that the move had helped the company write £8.4bn of PRT deals in that year.

Other signals of the turning tide have been seen in PRT pricing, which has become more closely correlated with gilt yields. As well, advisers

“Insurers have reduced appetite for taking on corporate bonds from pension schemes, with a preference for taking on gilts”
- Michael Abramson, Hymans Robertson

“Insurers have reduced appetite for taking on corporate bonds from pension schemes, with a preference for taking on gilts,” said Michael Abramson, Partner and Risk Transfer Specialist at Hymans Robertson.

Hymans Robertson now advises that schemes close to de-risking should reduce their exposure to corporate bonds in line with insurers.

Insurers seek to match the cash flows of their liabilities by purchasing a variety of assets whose returns will amply cover those costs, which means they choose assets that are going to give them the best risk-adjusted returns. That has traditionally meant buying investment-grade corporate debt and higher-quality credit-like instruments such as equity-release mortgages, infrastructure debt and private issuance.

like Hymans Robertson have been privy to insurer thinking thanks to their dealings with pension scheme clients.

“Our clients are pension schemes, and those clients are often procuring insurance,” said Abramson.

“So, we see the pricing, we see how the pricing moves, we see the appetite from insurers for taking on certain assets.”

The beginnings of the reversal became apparent before the mini budget of 2022 that saw gilt yields surge when then Prime Minister Liz Truss sought to slash taxes and public spending, sparking worry among bond investors that the policy would put too much strain on the UK economy.

“I wouldn't put all of that down to the rise in gilt yields we saw at the back end of 2022 – even before then we were seeing gilt yields climbing and they've continued to rise since,” said Abramson.

effectively swapped for corporate debt of the same tenor that pays a better rate. Another strategy is a so-called par-par asset swap, another derivative trade.

These have raised eyebrows at the [Prudential Regulation Authority](#) (PRA), which warned insurers to adjust their risk management processes at the beginning of the year as they make “more use of strategic structured and synthetic investments which can introduce potential liquidity risk”.

“We expect firms to consider the cumulative impact and potential leverage of any such strategies and ensure appropriate risk appetite and limit frameworks are in place to manage potential aggregate cashflow risks including in stressed conditions,” the PRA wrote.

A sudden shift in gilt yields can't be ruled out altogether. If that happened, the risk-adjusted premium that UK bonds enjoy relative to corporate debt would flip again and insurers would likely change their investment plans in lockstep.

“A future shift back could introduce complexity or volatility for insurers and the wider market, requiring constant adaptation of investment strategies,” Schrodgers wrote in a [late 2024 paper](#).

While gyrations in insurer investment strategies are having an impact on PRT pricing, they're not expected to affect PRT deal volumes. In its latest annual *De-Risking Report*, WTW forecast that deals in 2026 would reach £70bn – including a record £50bn in the BPA space. Improved scheme funding levels are expected to continue stoking the market.

“The bigger driver of the amount of PRT deals being struck is demand from pension schemes,” said Abramson.

“There's more than ample supply, both in terms of capital appetite from insurers and the assets that they'd use to back these.”

“It's in particular relative to the swap yields that the gilt yield has looked attractive. And gilts are far more capital efficient for the insurers than corporate bonds”

- Michael Abramson, Hymans Robertson

“But it's in particular relative to the swap yields that the gilt yield has looked attractive. And gilts are far more capital efficient for the insurers than corporate bonds.”

With analysts forecasting that gilt yields will remain elevated, it's reasonable to assume that insurers will continue to pursue a gilt-focused investment framework into the near future. Despite their relative safety, they do carry some risk.

In particular, some insurers are [adding leverage to their gilt positions](#) through strategies such as forward gilt trades, in which the bonds are



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More UK Life Insurer Equity Release Securitisation on the Horizon?



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The US sees healthy activity across both of its reverse mortgage securitisation channels. On the agency side, \$534m worth of issuance was seen in January this year alone, and parallel to this, the 'private-label' or proprietary reverse mortgage market remains robust, with non-agency securitisations of jumbo and specialist loans coming down the pipe regularly.

There is also activity in Canada – Home Equity Bank's CHIP Mortgage Trust for example – and Australia's previously moribund market has a new lease of life, thanks to Household Capital's recent issuance both last year and in 2024.

But despite the maturity and activity in the market, the UK was something of an outlier. While other nations treated equity release/reverse mortgages as a tradable asset class, British insurers treated it as a 'buy-and-hold' liability hedge, locked away in the dark corners of their balance sheets, largely due to regulatory capital reasons.

activity in the defined benefit pensions de-risking market.

So, why do it at all?

"It's mainly about capital optimisation rather than just raising cash for new loans, which is what happens in other markets," said Ben Grainger, Partner at EY in London.

"The money from the senior tranches of a securitisation can be used to help cover the pension obligations that insurers are taking on through bulk purchase annuities. In addition, public securitisation allows insurers to sell off the riskier parts, which require more capital."

And why now?

"The market needed to develop the ability to structure these deals and show which investors would be interested in buying the riskier parts of an equity release securitisation. Insurance companies tend to buy back the safer parts because they meet the capital requirements, but there's also strong interest from other investors for the riskier parts," said Grainger.

"Insurance companies buy back the senior tranches because they are matching adjustment compliant as I mentioned, but there has been strong demand from other investors for the mezz and equity tranches."

This demand is being fuelled in part by the broader macroeconomic environment. As interest rates began their tentative descent in late 2025, the spread on the mezzanine tranches became more attractive to global credit funds looking for a hedge against more traditional corporate debt, for example.

So, the model is now proven, apparently. And there is, arguably, a further regulatory benefit to these deals – by issuing equity release securitisations, the insurers are de-risking as the riskier tranches of the structure are being transferred to capital markets investors as opposed to sitting in the own funds bucket of an insurer's balance sheet. That's a good news story for the regulator (and the wider public).

There could be other benefits, too. Despite the drivers of activity being more corporate finance in nature as opposed to business development, it isn't out of the realms of possibility that this may have a

"It's mainly about capital optimisation rather than just raising cash for new loans, which is what happens in other markets...The money from the senior tranches of a securitisation can be used to help cover the pension obligations that insurers are taking on through bulk purchase annuities. In addition, public securitisation allows insurers to sell off the riskier parts, which require more capital"

- Ben Grainger, EY

The tide may be turning, however, as green shoots have begun to appear across the sector. Two examples of recent activity in the space include a £750m securitisation of Aviva equity release mortgages in December 2024 and Legal & General preplacing an approximately £500m equity release RMBS in December last year (both arranged by Citi).

But unlike the US model, for example, British insurers in the market arguably don't need the money because they are well capitalised with billions of pounds of bulk purchase annuity premiums, thanks to the seemingly relentless

positive impact on the primary market, which itself has just enjoyed a stronger year than in previous ones.

Industry group the Equity Release Council recently published data suggesting that the market grew 11% last year, with total annual lending increasing from £2.3bn in 2024, to £2.57bn in 2025; the emergence of a securitisation market in the UK could provide a tailwind for activity, although it is early days.

“In general, the regulators are lowering the barriers for investors through reduced and more flexible due diligence, which should encourage more external investors in ERM securitisations. L-shaped risk retention could allow insurance originators to split their 5% retention between a vertical slice and a first loss tranche, which could provide greater flexibility in managing Solvency II capital charges”
- Neil Hamilton, Mayer Brown

“Some firms might be more willing to offer higher loan-to-value products because they have a way to exit through securitisation. If investors show more interest in equity release mortgages, we could see lower rates for consumers, making funding cheaper than keeping everything on their balance sheets. However, there is still some way to go on this,” said Grainger.

There's more. On 17th February, the PRA published *CP2/26 – Reforms to securitisation requirements*, a new consultation paper sets out the PRA's proposed rules and expectations for PRA-authorized firms (which includes many life insurance companies) participating in securitisations. The proposals contained in the consultation paper “aim to make the existing requirements more proportionate and less prescriptive, while still supporting the PRA's primary objective of maintaining appropriate prudential and general safeguards. The PRA considers that the proposals would facilitate its secondary objectives by lowering compliance costs and aligning securitisation capital requirements with the economic substance which may, over time, enable greater competition and facilitate international competitiveness and growth.”

While the reforms are designed to be helpful to the UK securitisation market in general, if accepted, they will be supportive of UK equity release mortgage (ERM) securitisations in a number of ways.

“In general, the regulators are lowering the barriers for investors through reduced and more flexible due diligence, which should encourage

more external investors in ERM securitisations. L-shaped risk retention could allow insurance originators to split their 5% retention between a vertical slice and a first loss tranche, which could provide greater flexibility in managing Solvency II capital charges,” said Neil Hamilton, a Partner at Mayer Brown in London.

“The proposal to treat “similar private scheme loans” with the same risk-sensitivity as Mortgage Guarantee Scheme loans offers a potential way for private insurance-backed ERM portfolios to achieve better capital treatment. The PRA is explicitly aiming to align capital requirements with the economic substance of credit protection, which for ERMs with NNEG [no-negative equity guarantee] risks, may allow for more tailored IRB capital treatment,” he added.

Aviva itself sees the potential for increased securitisation activity as a funding mechanism for primary market origination.

“The demand for equity release is likely to continue to grow as retirees seek to access the wealth in their property. To ensure we are able to meet this demand and to provide the best options for our customers Aviva has used, and will continue to use, a variety of funding sources for our mortgages. This allows us to best align our ERMs to investor appetite. The increasing use of securitisation as a means to create tradable assets is likely to continue as providers seek the most efficient solutions to fund,” an Aviva spokesperson told *Longevity and Mortality Investor* in an emailed statement.

In the short term, the UK equity release securitisation market could be a billion pounds sterling per year market; although, the size of these deals means that Grainger expects two or three deals a year as insurers go through their back books. But there's no reason that there couldn't and shouldn't be activity each year going forward.

“While it's likely that after the initial wave of insurers looking to securitise their portfolios, activity may slow to one or two deals a year, that still means half a billion pounds of unique assets entering the capital markets,” he said.

Longevity Swap Activity Expected to Rise as Run-Ons Look More Attractive



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Longevity swaps used to hedge against the risk of defined benefit (DB) pension scheme members living longer than forecast are set to rise to at least a six-year record this year.

In its *De-Risking Report 2026*, adviser WTW forecasts that schemes are likely to undertake longevity swaps that cover more than £20bn of liabilities, the highest since 2020, and a combined £70bn of bulk-purchase annuity (BPA) and swaps transactions in the UK pension risk transfer (PRT) market this year, which would be a record.

The rise in interest rates since 2021 has had the effect of reducing the present value of DB schemes' liabilities, increasing funding levels and making buy-ins and buy-outs a more affordable means of shifting risk from scheme balance sheets.

But interest rates are looking fairly sticky at present, so, what's helped revive the longevity swaps market?

signalled its readiness to permit sponsors to draw down on their scheme surpluses more easily. The proposal has since been encoded in the Pensions Schemes Bill, which is set to be passed into law this year.

This development has given pause to many de-risking plans. With funding levels at near-record highs, the potential to cream off some of those excess funds to invest in the company or hand over to scheme members (or both) has made run-ons a more viable choice.

With the balance seemingly tipped, administrators are more likely to take a chance and hedge the risks that have potential upside – investment exposures and interest rate movements – while using swaps to offload the risk of scheme members living longer.

This is a process that Matthew de Ferrars, Pensions Partner at law firm Pinsent Masons, described as a “DIY buy-in”.

“For larger schemes, if you're going to run on, then from a corporate point of view, the one thing you don't like is nasty surprises,” said de Ferrars.

“The financial markets and the way longevity assumptions might go might result in that, so it makes sense to hedge the obvious risks – longevity along with interest rate and inflation risks.”

Longevity swaps may also be a cost-effective strategy because they are usually contracted with reinsurers who can hedge the risk more cheaply than a pension scheme because they can outsource it to the global reinsurance market.

The WTW report noted that swaps were likely to be contracted by medium-to-large schemes with assets of more than £100m.

Aggregate swaps announced last year were just short of £20bn and came from six deals, all involving large schemes. While the legal and governance costs associated with longevity swaps are expected to be a deterrent to smaller schemes, the report's authors expect more activity to come from the mid-market.

“Whereas perhaps historically it's only been large deals, we are now seeing interest almost across the board from pension schemes of a range of sizes except the smaller sub-£100million

“For larger schemes, if you're going to run on, then from a corporate point of view, the one thing you don't like is nasty surprises...The financial markets and the way longevity assumptions might go might result in that, so it makes sense to hedge the obvious risks – longevity along with interest rate and inflation risks”

- Matthew de Ferrars, Pinsent Masons

The most likely reason is the increasing appeal to sponsors of running on their schemes.

“It's the next stage of de-risking for a lot of pension schemes,” said Matt Wiberg, London-based Bulk Annuity and Longevity Hedging Specialist at WTW.

“If they're going to run on or if they've got a de-risked investment strategy they may want to remove some of that longevity risk as well.”

Part of the reason why BPA transactions have been so popular is because on balance, corporate CFOs usually see more benefit in removing the risk from the sponsor's balance sheet than they do in any potential gains from running on their scheme.

Last year, however, the UK government

schemes,” said Wiberg.

That increasing interest, according to the report, is steeped in pricing, which has been “better than ever in 2025”, relative to scheme best estimate mortality assumptions, driven by reinsurer fees being less than half the level they were five years ago.

But longevity swaps won't be right for all schemes.

“Whereas perhaps historically it's only been large deals, we are now seeing interest almost across the board from pension schemes of a range of sizes except the smaller sub-£100 million schemes”

- Matt Wiberg, WTW

virtuous circle of increased demand and supply in the longevity swap space that could support increased activity going forward.

“Whilst the majority of longevity swaps have covered longevity risk for pensioners in payment, recent years have seen increased reinsurer appetite for non-pensioners, which has resulted in more competition and significant reductions in cost for non-pensioners,” the report states.

“With more schemes considering their endgame strategy and the implementation of longevity swaps at the smaller end of the market becoming more efficient, longevity swaps are a hot topic of conversation for many pension schemes,” it stated.

“If you're looking at a scheme that is going to be able to do a full buy-in and then buy-out in the next five years or whatever, you wouldn't go into a longevity swap with all the complication and the work and the advisory fees to then exit it, convert it into a buy-in in a short-term scale like that,” said de Ferrars.

“It's a clunky sort of process to go through compared with actually just bidding your time and just getting rid of the scheme in one shot to buy-in and then buy-out.”

And there is another potential headwind to growth.

“Recent lighter mortality experience in the UK has increased the uncertainty relating to future mortality rates – if this trend continues, reinsurers would likely increase life expectancy assumptions which would increase the cost of hedging,” the report stated.

Still, the appeal of running on a scheme to extract surpluses can't be underestimated, and while the outlook for future mortality and reinsurer pricing may be fuzzy, there is something of a

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US Life Insurers' Ample Capital, Liquidity to Support Ratings in 2026



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 Director
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“We expect a modest increase in credit losses YoY and will continue to monitor investment quality and underwriting for signs of late cycle behavior and outsized risk taking. In the event of a more severe market downturn, which is not in our base case, insurers’ strong capitalization will partially insulate balance sheets”

Fitch Ratings has a ‘neutral’ outlook for North American life insurers for 2026 despite a more challenging backdrop, as strong capital, prudent asset/liability management, and liquidity will help issuers to withstand declining policy rates, slowing economic growth, heightened macroeconomic volatility, and geopolitical uncertainty.

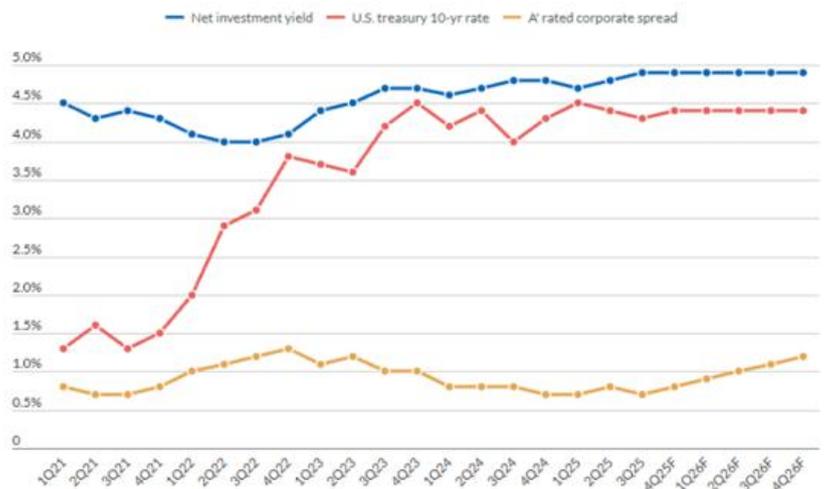
Stability of operating earnings, net investment income and return on equity will be supported by increasing assets under management, improving fixed-income returns, and spread widening that will be partially offset by policy rate declines and equity market volatility. US life insurers are exposed to changes in interest rates, though the sector’s closely matched assets and liabilities partially mitigate impacts.

We expect a modest increase in credit losses yoy and will continue to monitor investment quality and underwriting for signs of late cycle behavior and outsized risk taking. In the event of a more severe market downturn, which is not in our base case, insurers’ strong capitalization will partially insulate balance sheets.

Commercial real estate (CRE) exposure, notably in office properties, will remain under pressure, though it is abating, driven by increased transactions and lower interest rates. Insurers’ credit loss reserves have increased meaningfully, reflecting the challenging dynamics, which should absorb the expected uptick in realized losses.

We expect investment risk for the industry to increase modestly in 2026, with growth in offshore reinsurance and partnerships with alternative investment managers (Alt IMs) to persist. US life insurers looking for higher yields and longer-term returns have raised their allocations to private credit and Level III assets but are not expected to face widespread rating pressure if private credit performance weakens over the next 12-24 months. Alt IM partnerships will be tilted towards strategic partnerships, minority stakes, reinsurance platforms and sidecars, with most large Alt IMs having an insurance platform in place.

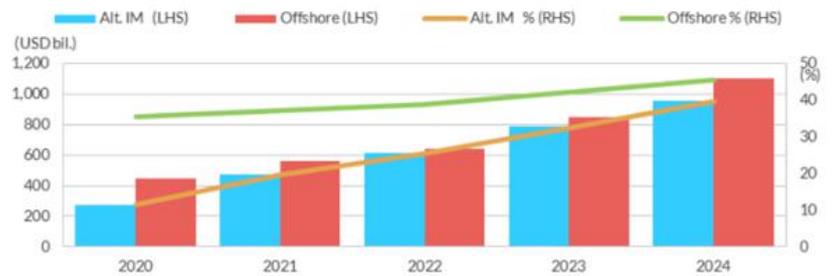
Figure 1: US Life Insurer Yields and Spreads



Source: Fitch Ratings, company financials, BofA Merrill Lynch, FRB St. Louis.

The continued shift toward less-liquid investments toward will increase regulatory scrutiny to ensure that the capital held is commensurate with risk. The focus on private credit will increase, particularly among bank and insurance regulators, given the potential spillover risks from the growing interconnectedness among market participants. The National Association of Insurance Commissioners in the United States and the Bermuda Monetary Authority have proposed and adopted initiatives, such as strengthening disclosure granularity and capital requirements, to increase transparency and resilience and protect policyholder obligations.

Figure 2: Offshore and Alt. IM Reinsurance Growth (Reserve Credit and Modified Coinsurance Reserves)

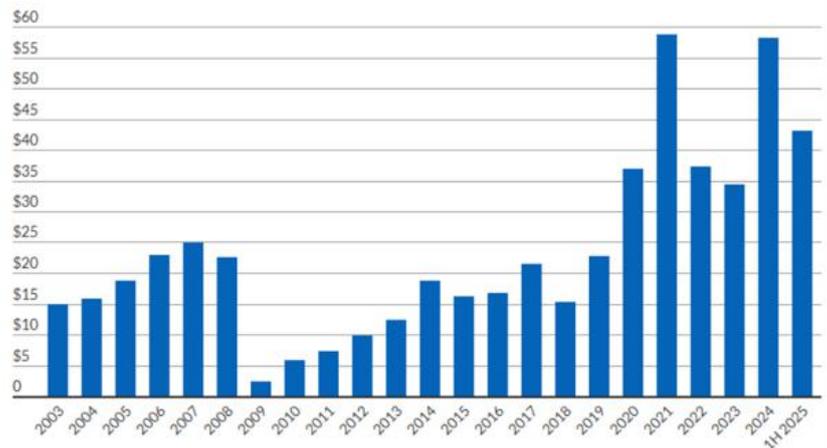


Source: Fitch Ratings, company financials,, S&P Capitals IQ Pro

The rapid growth of private letter ratings (PLRs) raises risks for U.S. life insurers as the industry increases exposure to more complex, opaque investments untested by a macroeconomic downturn. Key watch items include effectiveness of impending regulation, percentage of capital invested in PLR-rated issuers, illiquidity, and valuation methodologies regarding governance, subjectivity, reliability, and transparency.

Positive market conditions have supported record issuance of funding asset backed notes (FABNs), with increased issuer participation and investor demand. Robust issuance should continue in 2026, the volume and pace of which will depend on the path of interest rate cuts and credit spreads. Due to their credit sensitivity, rate exposure and commoditized nature, FABNs introduce incremental risk compared to traditional insurance liabilities, with outsized issuance levels marginally increase credit risk in a benign but volatile environment.

Figure 3: U.S. Life Insurer FABN Issuance (USD \$bns)



Source: Fitch Ratings, Bloomberg Financial.

“The continued shift toward less-liquid investments toward will increase regulatory scrutiny to ensure that the capital held is commensurate with risk. The focus on private credit will increase, particularly among bank and insurance regulators, given the potential spillover risks from the growing interconnectedness among market participants”

“We expect offshore (re) insurance activity to continue growing in 2026 as insurers seek to increase reported capital and earnings via spread-based transactions”

We expect offshore (re)insurance activity to continue growing in 2026 as insurers seek to increase reported capital and earnings via spread-based transactions. This can elevate counterparty credit risk. Fitch evaluates reported capital using the Prism capital model on a consolidated basis, which limits the scope for regulatory arbitrage to affect assessed capital strength and credit profiles.

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Q&A

Dr. Joshua Funder
CEO and Managing Director, Household Capital



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DBRS Morningstar says that the Australian securitisation market could hit AUD\$100bn in 2026, in part because “Australian securitisation remains attractive for offshore investors because of the country’s historic stability, uncertainty in other markets, and Australia’s increasingly diversified economy and limited direct exposure to US tariffs.” *Greg Winterton* caught up with **Dr. Joshua Funder**, CEO and Managing Director of **Household Capital**, to discuss the current state of and outlook for the reverse mortgage sector of the Australian securitisation market in this month’s Q&A.

GW: Josh, let’s start at the beginning. The Australian reverse mortgage securitisation market has only really got going again in the past two years. What’s taken it so long?

JF: Reverse mortgage securitisations in Australia were essentially sidelined after the global financial crisis because non-bank lenders at that time failed to establish sustainable financing vehicles. This left the banks, largely Australia’s “Big Four” banks (CBA, Westpac, NAB, and ANZ), which began withdrawing from the reverse mortgage market around 2018, following a review of the sector by ASIC (Australia’s corporate regulator). The review found that banks were failing to adequately document borrowers’ long-term needs (like future aged care costs) and meet their responsible lending requirements.

The re-entry of non-bank lenders to the reverse mortgage market has regenerated the sector. At the same time, the baby boomers have reached retirement age (and Gen X are hot on their heels!). Australia’s ageing population, high levels of home ownership plus growth in housing prices means that baby boomers have around AUD\$1.4trn saved in their homes.

What’s taken it so long? The re-emergence of a viable sector, funded largely by non-bank lenders. Consumers required education and information to understand the product and see the difference between the unregulated products that proliferated

around the time of the GFC and those available today.

In terms of the Australian reverse mortgage securitisation market, Household Capital is currently the only issuer. We have committed the time to build scale in our portfolio and the robust actuarial data and tech-stacks required to satisfy global rating agencies like Moody’s and S&P. Achieving a AAA rating for 90% of our portfolio has taken innovative analysis of the underlying security and performance including low LVRs, well-regulated mortgage contracts, low customer and reputational risk, strong voluntary discharge, long-term variable rate accrual and house price growth.

The success of Household Capital’s inaugural transaction in 2024 and our dual-rated HHC 2025-1 transaction proves the performance of Australian, regulated, variable rate reverse mortgage portfolios can meet the needs of global securitisation investors.

GW: Does the presence of the Australian government’s Home Equity Access Scheme (HEAS) act as a stabiliser for the private reverse mortgage market, or does it create a unique ‘crowding out’ risk that originators in other markets don’t have to navigate?

JF: The ageing demographic of the Australian market is a huge opportunity and is large enough to sustain high growth into the future. We have over five million baby boomers – and a similar number of Gen X – in need of improved retirement funding and housing, and over AUD\$1.4trn of existing home equity saved.

The federal HEAS is a useful product for some borrowers but has limitations around the amount that can be borrowed and access to lump sum payments. However, it increases awareness of the role of home equity in long term retirement funding, which is helpful to the broader sector.

Continued on next page...

We expect there to be plenty of supply and demand in the private market for many years – decades, even – to meet the needs of an ageing population.

GW: Your HHC 2025-1 RMBS Trust product introduced a subordinate Class X Note to provide sustainable originator funding of mortgages with lower cashflows. What drove this decision and will it be a feature of future issuance?

JF: The Class AL note – which we were able to issue with a AAA rating – provides capital to the securitisation pool to fund future loan drawdowns for our existing customers. This enables us to meet their ongoing needs and maintain the scale of the portfolio. Our decision was driven by the need to create a sustainable, self-funding mechanism within the trust itself. By moving the responsibility for funding future drawdowns into the securitisation, we ensured we can scale the business going forward.

Our X Note was issued at above par because a) the average LVR across our own term portfolios is around 25% and b) the fact that variable-rate reverse mortgages without break fees, which are standard features of the Australian market, demonstrate a reliable voluntary discharge rate of over 10% per annum. This means that the equity cushion and the capital flows back into the deal provide confidence to ratings agencies and institutional investors.

GW: The ultimate protection against crossover risk is house price inflation (HPI). How do you model for house price volatility to ensure that the statutory 'No Negative Equity Guarantee' doesn't eventually erode investor returns?

JF: Variable rate reverse mortgages with low starting LVRs have negligible Negative Equity Risk, in sharp contradistinction to fixed rate reverse mortgages in the UK and high starting LVR reverse mortgages in the US. The minimal extent of negative equity can be seen in the strong ratings we are able to achieve for both of our recent securitisations.

GW: What makes the Australian 'rated' equity release RMBS structure a superior or complementary diversifying play to other markets? Are there specific jurisdictional benefits that give Australian pools a lower risk-weighting in a global credit portfolio or better risk-adjusted returns – or both?

JF: The Australian RMBS structure provides diversification benefits when in a portfolio with securitisations from other markets. As a relatively new asset class of existing home equity, it offers

investors low risk and a premium return. This is because Australia's reverse mortgage market has world leading consumer regulations that have had no material breach since they came into force in 2012. As previously mentioned, the low LVR, variable rate model provides substantial benefits to investors.

GW: The Australian housing market continues to face a structural supply-demand imbalance, with KPMG forecasting steady house price growth of over 7% for the year, for example. Given this tailwind and an ageing population, at what point will the Australian equity release securitisation market move from 'niche specialty' to a standard, consistent volume segment of the Australian private credit landscape?

JF: The market moves to "standard" when home equity is no longer seen as a last resort but as the third pillar of retirement funding alongside superannuation and the government's Age Pension. I've already mentioned that Australia has approximately AUD\$1.4trn locked in retiree homes, so the opportunity and the supply is there.

Ten years ago, around 12% of retirees entered retirement with a mortgage; now over 30% carry a mortgage into retirement. So, mortgages in retirement have become mainstream but a recourse mortgage is inappropriate finance for retirees without an ongoing income. So, meeting this need is a growth segment.

As a sector we are already originating record volumes over AUD\$1bn per annum. The "niche" label will likely only drop when primary market activity grows to a point where it can support several billion dollars or so in annual securitisation volumes. We're not there yet but as I commented earlier, the structuring is there now, and we have a proven securitisation offering.

Dr. Joshua Funder is CEO and Managing Director at **Household Capital**

Regulatory Changes Abound in Offshore US Life/Annuity Sidecar Market but Macro Picture Is the Most Likely Determinant of Further Growth



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The growth in the US life/annuity offshore sidecar market in recent years has been quite remarkable, from \$87bn in 2022 to \$311bn in Bermuda alone in 2024, according to data collected by S&P Capital IQ.

A few trends have contributed to that growth. Rising interest rates have driven significant increases in individual annuity sales in the US which, thanks to the capital requirements necessary to back these liabilities, has had the knock-on effect of accelerating the use of reinsurance structures to free up capacity so the insurers can keep writing this business.

Another has been the increasing participation of alternative asset managers in the life/annuity sidecar space as they can steer the insurance premiums into higher-yielding, private credit assets, something in which these firms have significant expertise.

But last year saw a decline in the number of class C, D and E registrations (the categories where life and annuity reinsurers are mostly heavily concentrated) in Bermuda. Is this a sign of market saturation already?

out. I don't think it's a commentary on supply and demand."

Bermuda has made a recent change to its disclosure rules this year that, arguably, could support more activity. Under the Insurance (Prudential Standards) Amendment Rules 2025, insurers must now file a standardised "Asset and Liability Statement" which includes granular, position-level data, designed to provide transparency into the private credit and asset-intensive holdings of Class C, D and E insurers.

Far from being a deterrent to new business growth, the change could be a tailwind.

"Bermuda has done a few things in the past two years to significantly enhance disclosure requirements and tighten the reins on certain types of investments. The BMA wants to reinforce confidence in its role as a regulator but also in Bermuda as an insurance and reinsurance market in terms of policyholder obligations. This level of disclosure already happens in the US anyway and the increased transparency that Bermuda now requires is likely to be supportive of activity as opposed to being a drag," said Zawacki.

What might throw the space off course a little is that the US has also implemented a change recently with regards to disclosure. Actuarial Guideline 55 now requires US life insurers to perform asset adequacy testing on certain asset-intensive reinsurance treaties, and this could have an impact, particularly in the short term.

"It's premature to make a definitive statement on whether AG 55 will have a meaningful effect on the flow of business from the US to Bermuda. This year is the first year of AG 55, and it's almost a foundation year, where the results will determine if further rule making will need to occur. You have to take all of these things - enhanced transparency and prudential supervision in Bermuda, and a greater focus on ceded assets in the US - together to get a feel for which companies are thinking about where, what and how much business they are ceding offshore," said Zawacki.

Where registrations of sidecars have accelerated is in the Cayman Islands. Long the preferred destination of offshore pooled investment funds for the US alternative investment industry,

"From the perspective of saturation, it's true that there have been a lot of registrations in recent years, but I think it fell last year because I don't think all of those sidecars that have been registered have been fully built out or have fully executed their business plan yet"

- Tim Zawacki, S&P Global Market Intelligence

"From the perspective of saturation, it's true that there have been a lot of registrations in recent years, but I think it fell last year because I don't think all of those sidecars that have been registered have been fully built out or have fully executed their business plan yet," said Tim Zawacki, Principal Research Analyst at S&P Global Market Intelligence.

"There are a number of entities with significant capacity to grow. I think the pullback is just as likely to be because existing platforms need to build

Cayman is making a play in the offshore life/annuity sidecar market as well.

S&P Global says that in 2025, registration growth (44, up from 37, 19%) outpaced asset growth (\$73.2bn, up from \$70bn, or 4.6%) in Cayman, but AG 55 applies to any offshore jurisdiction, not just Bermuda, so there may be an impact here, too.

But the main driver of increased activity – or a pullback – in the coming years is less likely to be due to regulatory change, and more likely to be due to macroeconomics.

“The macro picture is one that underpins everything. While I think that the credit cycle might place scrutiny on the space, given the perception of reinsurer’s exposure to private credit instruments, the supply and demand dynamics in terms of annuity issuance and the need for reinsurance solutions remains strong and I think that, assuming current economic conditions hold up, is likely to be more influential in terms of market growth,” said Zawacki.

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Despite a handful of interest rate reductions in the US in the past 18 months, individual annuity sales have continued to break records. Add to that a good \$50bn or so of annual bulk purchase annuity premium and you have a situation where US life/annuity insurers will still need balance sheet solutions in order to continue to write more new business.

One of those roads leads them back to the offshore reinsurance sidecar market.



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