

The Structural Decision for Setting Up a Life Settlement Vehicle in Ireland

Further Declines in HECM Endorsements Suggest Urgent Reform is Needed

New Report Suggests Life Settlement Market Poised for Long-Term Expansion



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ELSA
11 St Nicholas Street
Suite 202
Weymouth, Dorset
United Kingdom
DT4 8AA

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

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Settlement Association

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

Contributing Editor
Greg Winterton
greg@lminvestor.com

Editorial Assistant
Emilie Horne
emilie@lminvestor.com

Editorial Enquiries
editor@lminvestor.com

Design & Layout
Kieran Reilly
hello@kieranreilly.com

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Editor's Letter, Volume 2, Issue 10, October 2026



Chris Wells
Managing Editor
**Longevity &
Mortality Investor**

Increased investor demand for assets with low correlation to traditional financial markets, an ageing population, rising retirement and long-term care funding needs, and broader direct-to-consumer awareness are all supportive of growth in the life settlement market, according to insurance asset manager, **Conning**. *Greg Winterton* spoke to **Scott Hawkins**, Head of Insurance Research at the firm, to get his views on the tailwinds and headwinds shaping the market's trajectory in *New Report Suggests Life Settlement Market Poised for Long-Term Expansion*.

Life settlement portfolio managers raising money for an Irish-domiciled vehicle have two main routes to go down when it comes to structuring their vehicle. *Greg Winterton* spoke to **David Naughton**, Partner at **Byrne Wallace Shields**, to get his views on the options, and Ireland as a domicile for life settlements more broadly, in *The Structural Decision for Setting Up a Life Settlement Vehicle in Ireland*.

A recent decision by Judge Thomas J. Lo of the Superior Court of California, Orange County denied **Pacific Life Insurance Company's** motion for summary judgment and **U.S. Bank National Association's** cross-motion for summary judgment in an insurable interest lawsuit. *Greg Winterton* provides an overview of the details in *Litigation Update: U.S. Bank National Association v. Pacific Life Insurance Company*.

For many countries with ageing populations, dementia presents major challenges. **Richard Marshall**, Senior Director, and **Scott Hamilton**, Director in **WTW's** UK life insurance practice explore the potential impact of changes in dementia prevalence and outcomes driven by a combination of prevention, diagnosis and treatment in *Is Dementia the Next Big Longevity Event?*, a guest article.

Internal rate of return is a common measure of performance in life settlement investing, but **Beat Hess**, Managing Partner of **AA-Partners**, argues that Distributed to Paid-In is a better judge of realised performance. *Greg Winterton* caught up with Hess to learn more about why he favours this approach in this month's Q&A.

Issuance in the agency-backed US reverse mortgage market has been on a generally downward trajectory for many years, and this most recent financial year delivered the lowest number of new HECMs since 2003. *Greg Winterton* spoke to **Michael McCully**, Partner at **New View Advisors**, to get his take on the state of origination in the agency-backed space in *Further Declines in HECM Endorsements Suggest Urgent Reform is Needed*.

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

New Report Suggests Life Settlement Market Poised for Long-Term Expansion



Author:
Greg Winterton
Contributing Editor
Longevity & Mortality Investor

The life settlement market is positioned for long-term expansion, as increased investor demand for assets with low correlation to traditional financial markets converges with an ageing population, rising retirement and long-term care funding needs, and broader direct-to-consumer awareness, according to *Life Settlements: Positioning for Long-Term Expansion*, a new study from insurance asset management firm Conning.

The study, now in its 21st year, says that the average annual gross market potential for life settlements is approximately \$228bn - but the average annual volume of new life settlements (the secondary market) is approximately \$4.4bn.

Glass-half-empty types would say that's quite a gap. Those with a glass-half-full perspective say that this represents a huge opportunity. There is a nuance here, which is that data for the tertiary market is not available, but for Scott Hawkins, Head of Insurance Research at Conning and author of the study, a few things need to change for secondary market activity to deliver meaningful change.

"To increase the annual volume, we see three main factors that need to come together. First, we think consumer and advisor awareness needs to be increased. Second, the life settlement process needs to be more standardised to support lower-face (sub million dollar) policies. Third, there needs to be enough capital willing to invest in life settlements to support that growth"

- Scott Hawkins, Conning

"To increase the annual volume, we see three main factors that need to come together," he said.

"First, we think consumer and advisor awareness needs to be increased. Second, the life settlement process needs to be more standardised to support lower-face (sub million dollar) policies. Third, there needs to be enough capital willing to invest in life settlements to support that growth."

A persistent lack of consumer and advisor awareness (according to many in the life settlement market) is a topic that comes up consistently at industry events and in the media, and plenty of

initiatives exist industry-wide to close what is currently an education and awareness chasm at the policyholder and adviser level.

Indeed, Hawkins points to the adviser cohort specifically as a group that the life settlement market might think about focusing more on to help address the awareness shortfall.

"Our view is that annual volumes are low primarily because life settlements are a niche solution that not enough advisors discuss with their clients," he said.

"The D2C [direct-to-consumer] life settlement firms such as Coventry and Abacus are pointing the way with mass-advertising, but advisors also need to be aware of life settlement option."

Whether a greater degree of standardisation in the lower face value part of the market can be achieved at scale remains to be seen, but the question of attracting capital is something the market does have information on.

Conning has, for the past two years, published a report based on a survey of life settlement investors and market participants with the European Life Settlement Association, publisher of *Longevity and Mortality Investor*. In the *2025 ELSA-Conning Life Settlement Investor Sentiment Study* ([the most recent edition](#), published towards the end of last year), investors were asked about what contributes to any positive views they have towards the life settlement asset class, and for the second year running, diversification (83%) and lack of correlation to broader financial markets (79%) were the top two answers.

Actuarial assets like life settlements have a lower natural correlation to broader financial markets because longevity risk, the main investment risk in the space, is not a financial risk. But that doesn't mean that capital allocators are waiting with a blank chequebook for the next life settlement securitisation or pooled investment fund to come knocking at their door.

"That capital interest will depend on how the life settlement risk/return profile compares to other investments. Investors looking at alternative capital have a variety of options available to them," said Hawkins.

A popular topic in financial media circles currently is that of life and annuity insurer risk

as a counterparty, particularly in the US. Certain complainants have suggested that insurers investing capital they receive from annuity purchases, both individual and bulk purchase annuities, into private assets is an investment play that is too risky.

Add to that the recent rehabilitation and liquidation of PHL Variable Insurance Company (and two captives) and investors might be forgiven for being extra cautious in allocating to asset classes exposed to life insurers.

insurance policies taking years, and sometimes more than a decade, to mature, successful investing in the asset class requires an active approach, and Hawkins, while bullish generally, acknowledges that certain headwinds exist that will need to be considered.

“The long-term forces supporting the life settlement market remain favourable, but the path to growth is becoming more complex,” he said.

“Market participants will need to expand consumer access while carefully managing policy supply, insurer exposure, financing, and emerging longevity risks.”

“The long-term forces supporting the life settlement market remain favourable, but the path to growth is becoming more complex. Market participants will need to expand consumer access while carefully managing policy supply, insurer exposure, financing, and emerging longevity risks”
- Scott Hawkins, Conning

But reading this new report from Conning might provide them with a little comfort.

“The financial strength and economic performance of the life insurance companies that issued settled policies is a crucial aspect of risk management for the life settlement investor.... We track the performance of those 41 companies against the remaining life insurance industry to understand the impact life settlements may have on life insurer performance. At the end of 2025, those 41 target companies had a weighted average RBC higher than the weighted average life insurance industry,” says the report.

While *Life Settlements: Positioning for Long-Term Expansion* highlights what it considers to be the main tailwinds supporting growth in life settlements, that doesn't mean that investors in the space can sit back, set it and forget it. Despite



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The Structural Decision for Setting Up a Life Settlement Vehicle in Ireland



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

According to *Life Settlement Investor Sentiment 2025*, a report published late last year by insurance asset manager, Conning (in conjunction with the European Life Settlement Association (ELSA), publisher of Longevity and Mortality Investor), life settlements are on their way to becoming an established portfolio allocation.

There's plenty in that observation to like for those in the space and plenty of those investment managers out on the capital raising trail looking to tap into this increased interest will be raising money for an Irish-domiciled investment vehicle.

There are two main reasons why a life settlement portfolio manager chooses Ireland: first, if they have or want to court US investors, the QIAIF (Qualifying Investor Alternative Investment Fund), housed in the ICAV (Irish Collective Asset-Management Vehicle), is particularly attractive because it can generally be structured to achieve tax treatment that is familiar and efficient from a US federal tax perspective. In addition, overlaying the ICAV in a QIAIF wrapper incorporates the EU's AIFMD marketing passport, providing asset managers with a structure that straddles a large potential investor base simultaneously.

"For life settlement managers specifically, the 24-hour authorisation really matters. If they identify a \$50m portfolio of life insurance policies hitting the market, they might only have a month or so to win the bid and deploy capital. Sometimes, they can't wait months for regulatory approval for a fund"
- David Naughton, Byrne Wallace Shields

In practice, most life settlement ICAVs targeting institutional capital are authorised as QIAIFs, because unlike many retail fund wrappers such as UCITS, the QIAIF regime can comfortably accommodate portfolios consisting entirely of illiquid assets, including life insurance policies. Add to that the availability of custom drawdown structures, no mandatory diversification/concentration rules, and the all-important 24-hour Central Bank of Ireland authorisation fast-track, and, according to David Naughton, Partner at Byrne Wallace Shields, you get a compelling structuring

argument in favour of Ireland as an investment funds domicile.

"For international investors, the QIAIF has become a very familiar structure. It combines a highly flexible investment framework with a tax regime that is well understood by institutional allocators. For an asset manager pitching pensions, insurers and family offices, familiarity matters. Investment committees are far more likely to approve a structure they have seen before than an unfamiliar offshore vehicle," he said.

"But for life settlement managers specifically, the 24-hour authorisation really matters. If they identify a \$50m portfolio of life insurance policies hitting the market, they might only have a month or so to win the bid and deploy capital. Sometimes, they can't wait months for regulatory approval for a fund."

The QIAIF is Ireland's most common regulated route into the life settlement asset class, but not every life settlement strategy is designed for larger institutional investors.

Some managers are looking for a vehicle to accumulate policies, finance acquisitions or accommodate a smaller group of investors rather than market a fund across Europe or beyond. For those situations, Ireland offers an 'unregulated' option: the Section 110 special purpose company, a structure borrowed from the securitisation market. These vehicles are not regulated by the Central Bank of Ireland but typically are designed to hold assets and issue funding instruments against them, so for life-settlement managers, that distinction opens up a different set of structuring possibilities.

Under Ireland's Section 110 regime, a qualifying special purpose company can hold portfolios of life insurance policies while funding itself through the issuance of debt securities. Those financing costs are generally deductible, meaning the vehicle itself is intended to retain little taxable profit. The structure becomes particularly attractive when combined with Ireland's quoted Eurobond regime, under which qualifying debt can typically be serviced without Irish withholding tax. The result is a tax-neutral platform that has long been familiar to participants in the securitisation and structured finance markets.

"The Section 110 route tends to appeal where the focus is on efficient asset financing, private

capital arrangements or a securitisation-style investment model rather than broad-based fund distribution,” said Naughton.

While these two options are generally considered ‘either/or’ by life settlement portfolio managers, that doesn’t have to always be the case. A regulated QIAIF may sit at the investor-facing level, with its familiar governance and distribution characteristics, while one or more Section 110 vehicles beneath it hold portfolios of life policies or undertake financing activities. The result is a structure that combines the fundraising advantages of a regulated fund with the flexibility traditionally associated with securitisation vehicles.

Not everyone regards the distinction as decisive, of course; Luxembourg, for example, has a civil law system, and is one of Europe’s largest fund domiciles. Indeed, some life settlement vehicles are set up there.

But for those that decide that Ireland is where they want their investment vehicle to call home, Naughton says that investors wouldn’t set up there if there wasn’t a support ecosystem to do the middle and back-office work effectively.

“Ireland has a deep bench when it comes to the life settlement service provider community. Life settlements are a complex asset class that is not as well-known as other alternative investment strategies. Ireland has administrators, depositaries, securities intermediaries, auditors and legal counsel who know this asset class exceptionally well, and while investors and managers like the tax and legal features and benefits of setting up here, the domain expertise of the broader ecosystem is just as important,” he said.

“Ireland has a deep bench when it comes to the life settlement service provider community... administrators, depositaries, securities intermediaries, auditors and legal counsel who know this asset class exceptionally well, and while investors and managers like the tax and legal features and benefits of setting up here, the domain expertise of the broader ecosystem is just as important”

- David Naughton, Byrne Wallace Shields

“Seeing the QIAIF and the Section 110 routes as competing alternatives is arguably a simplification of the options because, while not the most commonly taken path, they can be used in combination with each other,” said Naughton.

Another factor frequently cited by practitioners as to why they set up in Ireland – regardless of the vehicle they choose – is Ireland’s common-law legal system. While often overshadowed by tax and regulatory considerations, legal familiarity can matter in cross-border transactions involving life policies, financing arrangements and multiple classes of investors.

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Litigation Update: U.S. Bank National Association v. Pacific Life Insurance Company



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

On 11th August 2026, Judge Thomas J. Lo of the Superior Court of California, Orange County ruled in *U.S. Bank National Association v. Pacific Life Insurance Company* (Case No. 30-2023-01330408-CU-IC-CJC), denying Pacific Life Insurance Company's motion for summary judgment and also denying U.S. Bank National Association's cross-motion for summary judgment. The court held that a \$20m life insurance policy procured using nonrecourse premium financing was not automatically void ab initio under Delaware's insurable interest statute.

The legal dispute centred on whether the policy lacked a lawful insurable interest at the time it was issued. U.S. Bank National Association acted as the plaintiff in its capacity as securities intermediary for the policy's entitlement holder, FCI III (an affiliate of Apollo), while Pacific Life Insurance Company served as the issuing insurer.

The policy in question insured the life of Judith Weiser, a Florida resident, for a \$20m death benefit. It was procured through a Delaware statutory trust using a 30-month nonrecourse loan, a financing arrangement in which the lender's sole recourse upon default was the policy itself, rather than the borrower's personal assets.

Approximately one week before the loan matured, the policy was relinquished to Coventry, which provided the original financing, in satisfaction of the debt. The policy was acquired by FCI III in late 2017, with U.S. Bank acting as securities intermediary. Following Weiser's death, U.S. Bank sought to collect the death benefit. Pacific Life refused payment, contending the policy was void for lack of insurable interest because the premiums were funded by nonrecourse financing.

Both parties moved for summary judgment in the Superior Court of California, Orange County. Pacific Life argued that, under Delaware law, a policy funded entirely by nonrecourse financing lacks an insurable interest and is void. U.S. Bank countered that Weiser procured the policy to address financial liquidity issues in her estate plan, which is a lawful insurance purpose recognised by Delaware's courts.

The court determined that Delaware law governed the insurable interest question.

Applying the framework from *Lavastone Capital LLC v. Estate of Berland*, 266 A.3d 964 (Del. 2021)

(*Berland*), a leading Delaware Supreme Court decision on insurable interest, the court held that the analysis involves two considerations: (1) whether the insured obtained the policy in good faith for a lawful insurance purpose, and not as a cover for a wager; and (2) the source of funding for the premiums. While nonrecourse financing can serve as evidence that insurable interest is not present at the time a policy is taken out, the court observed that *Berland* expressly states that premium financing "is a recognized and permissible tool" if used for a legitimate insurance purpose such as estate planning.

The court rejected Pacific Life's argument that *Estate of Barotz v. Vida Longevity Fund, L.P.*, 2022 WL 16833545 (Del. Super. Ct. 2022), *aff'd*, 320 A.3d 212 (Del. 2024) (*Barotz*), stood for the proposition that a court need not address lawful insurance purpose to find a nonrecourse-funded policy void. Finding that U.S. Bank presented admissible evidence of Weiser's estate planning purpose, the court determined that disputed issues of fact remained.

The court denied both Pacific Life's motion and U.S. Bank's cross-motion for summary judgment, holding that the question of whether the policy is void requires a trial on the disputed facts.

Is Dementia the Next Big Longevity Event?



Author:
Richard Marshall
Senior Director
WTW



Author:
Scott Hamilton
Director
WTW

“For insurers writing business exposed to longevity risk, the increasing importance of dementia as a cause of death has resulted in an increasing focus on treatments for dementia as a potential source of future mortality improvements”

For many countries with ageing populations, dementia presents major challenges: from the provision and costs of social care to the burden of appraising novel medical technologies targeting the dementia-care market. Insurers and reinsurers are not immune from such challenges; improving dementia outcomes could affect mortality rates in our elderly populations, affecting annuities and changing the balance of premiums and payments on protection products.

In England, it is estimated that about 6.5% of persons aged 65 and over have dementia (4.3% with recorded diagnoses) at the start of 2026¹. Both incidence and prevalence increase sharply with age; in the UK, prevalence at ages 65-69 (75-79) is approximately one tenth (one third) of that for ages 85-89. A similar relative relationship is observed globally, with prevalence at ages 60-69 (70-79) approximately 12% (34%) of that for ages 80-89².

For insurers writing business exposed to longevity risk, the increasing importance of dementia as a cause of death has resulted in an increasing focus on treatments for dementia as a potential source of future mortality improvements. This, combined with a vast research pipeline for novel therapeutics for the most prevalent types of dementia, provides ample reason for insurers to thoroughly investigate the potential impacts of changes in dementia-related mortality as part of their broader longevity risk framework. Indeed, in a WTW survey, novel dementia drugs were amongst the most commonly modelled scenarios for ‘new information risk’.

Treating dementia

The variety of diseases contributing to dementia prevalence (often co-occurring) and the poorly understood causes of disease progression present a challenge for researchers developing novel treatments. There remain significant questions over the causes of even the most common cause of dementia, Alzheimer’s disease, and the appropriate therapeutic targets for treatment; side-effects of treatments can also be significant.

However, these challenges are not without their technological match. Researchers are taking advantage of our rapidly evolving machine learning capabilities to explore predictors of Alzheimer’s disease and identify potential therapeutic targets, as well as to streamline the identification of novel candidate treatments³. Artificial intelligence may also be set to streamline clinical trials for Alzheimer’s disease medications; it is already helping to pinpoint groups of patients who may be more likely than others to benefit from specific treatments⁴.

Diagnosing dementia

NHS England estimates that around a third of dementia cases in England remain undiagnosed⁵. Attempts to seek help are often delayed because of patients’ denial, the stigma attached to the condition, fear of loss of autonomy and the lack of any curative treatment. Barriers to diagnosis may also originate with the medical system (lacking time, resources and availability of support services), medical professionals (with difficulty in communicating a diagnosis or having little to offer patients post-diagnosis) and carers (who may question the value of a diagnosis in the absence of a cure and seek to preserve the patient’s independence or fear the impact of a diagnosis on their own lives)⁶.

Screening for the main causes of dementia is not generally available; even in

light of recent tentative steps forward in the treatment of Alzheimer's disease, a review of the benefits and harms of population screening recently suggested that such a programme was not yet justified⁷.

This situation could change quite rapidly as a result of progress in the treatment of key causes of dementia. The ability to significantly slow, halt or reverse disease progression would incentivise earlier diagnosis and remove or reduce key barriers to diagnosis (e.g. lack of treatment, stigma).

Preventing dementia

The biggest risk factor for dementia is age; the disease can take many years to develop, so individuals living longer gives more time for dementia to arise.

Cerebrovascular disease is a strong risk factor for vascular dementia; a history of stroke doubles the risk of incident dementia in the older population⁸, and this increased risk is not explained by pre-stroke cognitive decline or demographic risk factors, nor by cardiovascular risk factors, which themselves are an additional risk factor.

About one-third of those with mild cognitive impairment (MCI) progress to dementia within three years (with similar proportions either staying the same or spontaneously improving, the latter suggesting that their symptoms were caused by depression, anxiety or other similar conditions)⁹.

Inherited risk (through genes) is a less material risk factor for dementia. Familial genes — which cause dementia with certainty if passed down from parent to child — are very rare for most types of dementia.

One estimate suggests that around 30% of Alzheimer's disease cases worldwide may be attributable to modifiable risk factors, such as physical inactivity, midlife obesity, smoking and depression⁶. A 2024 report from The Lancet estimated that 45% of all worldwide dementia cases could be prevented or delayed by addressing 14 modifiable risk factors at different stages of life⁷.

It is clear, then, what sort of policies and behavioural changes might be required in order for dementia prevalence to fall (or rise at a reduced rate): those which discourage or disincentivise the relevant modifiable risk factors. However, policies to change behaviours, control population obesity or encourage increased physical activity have had mixed results.

An improvement in diagnosis would, in isolation, have limited impact; unless the disease process can be slowed or halted, knowing that a patient has the disease is of limited value. Combined with an effective treatment (particularly targeting the early stages of disease), improved diagnosis could increase the impact in the medium-term. On the other hand, preventative measures (reducing exposure to modifiable risk factors) would have a much longer-term impact.

Conclusion

If improvements in dementia mortality are to be the “next big longevity event”, then these improvements should come primarily from novel treatments, supplemented by improved diagnosis (pending on which will be more justifiable once a viable treatment is available).

There are still significant challenges facing those developing treatments: both identifying the most effective therapeutic targets and identifying and trialling safe and effective drugs to exploit those targets. Current trials (at least later-stage trials of drugs for Alzheimer's disease⁸) include a number of drugs which are similar in nature (monoclonal antibodies) to the first generation of drugs, which demonstrated at best a very limited degree of disease-modification⁹. We might expect slight improvements in these drugs over time, but a breakthrough drug seems less likely.

“It is clear, then, what sort of policies and behavioural changes might be required in order for dementia prevalence to fall (or rise at a reduced rate): those which discourage or disincentivise the relevant modifiable risk factors”

“Insurers and reinsurers will want to keep abreast of the outcomes of the range of current and future dementia drug trials; early indications of better-than-anticipated benefits from drugs undergoing phase 2 trials could be a useful signal that dementia-related mortality improvements might accelerate”

Even with advances due to uses of machine learning in both the study of diseases and drug development^{3,4}, a significant advance in treatment seems distant and access to such a treatment could be further delayed depending on national policies concerning the required level of cost-effectiveness of medications before they can be prescribed.

Nevertheless, insurers and reinsurers will want to keep abreast of the outcomes of the range of current and future dementia drug trials; early indications of better-than-anticipated benefits from drugs undergoing phase 2 trials could be a useful signal that dementia-related mortality improvements might accelerate, giving time for a gradual adjustment of pricing and reserving assumptions.

Richard Marshall is a Senior Director in **WTW**'s UK Life Insurance practice

Scott Hamilton is a Director in **WTW**'s UK Life Insurance practice

Footnotes

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Any views expressed in this article are those of the author(s) and may not necessarily represent those of Longevity and Mortality Investor or its publisher, the European Life Settlement Association

Q&A

Beat Hess
Managing Partner, AA-Partners



Author:
Greg Winterton
Contributing Editor
Longevity &
Mortality Investor

Internal rate of return (IRR) is a common measure of performance in life settlement investing, but Beat Hess, Managing Partner of AA-Partners, argues that Distributed to Paid-In (DPI) is a better judge of realised performance. Greg Winterton caught up with Beat to learn more about why he favours this approach in this month's Q&A.

GW: Beat, DPI is a well-used metric in a range of private market asset classes/categories. Why do you prefer it to IRR, which arguably has been used for longer, particularly in life settlements?

BH: The target IRR of a fund is used in the private markets as well as in the life settlement market for pricing assets at the point of purchase. But, at the same time, the IRR is a marketing instrument, because that IRR is used in communications with investors.

But once a life settlement portfolio is running, investors want to know how it is performing, both generally and compared to their target IRR. One way to describe ongoing performance is the IRR - by combining the realised cashflows so far, together with a valuation of the policies not yet matured. The issue with this approach is that the valuation is based on assumptions, so the IRR of a current investment or fund can paint a rosier picture, even if the investment is actually not performing.

A second way, and one we prefer, is to describe the ongoing performance using DPI. Investors want investable cash back; the return of capital is what matters, and this is measured by the DPI. The DPI does not depend on assumptions, making it difficult to 'skew'. It is purely about cashflows which makes it easy to understand - and tangible.

The DPI is a great metric to report the performance of a life settlement investment, and the necessary information is readily available via standard bookkeeping tools.

GW: DPI proponents argue that it bypasses valuations and prevents skewed assumptions. What is a hypothetical scenario where a life settlement fund shows a strong IRR, but its actual DPI paints a drastically different, riskier picture?

BH: A life settlement portfolio generates two types of cashflows: cash-in from collected death benefits and cash-out from premium payments and cost. Thus, the balance of the two cashflows is decisive for the success of the investment, which is what the DPI measures.

Imagine a life settlement portfolio where the cash collected from mortalities does not, or does not significantly, exceed the cost (the payments of premiums to keep the other policies in-force). The DPI of such a fund would paint a dire picture, since the investment would not be going well at that point in time. And rightfully so, since the ultimate risk of this investment is a partial (or even total, in an extreme situation) loss for the investors if the cash-in does not continue to exceed substantially the cash-out.

The same portfolio can show, however, an attractive IRR since the value of the remaining portfolio, which depends on a range of assumptions, is considered in the IRR calculation, together with the to-date realised cashflows.

Again, we think this is why the DPI is so useful. Valuation assumptions can affect the reported value of the portfolio and lead to a rosy IRR, but they cannot create cash distributions. DPI cuts through that distinction by showing how much capital has actually been returned to investors.

Continued on next page...

GW: Because life settlements require ongoing premium payments before death benefits are collected, early-stage DPIs can look low. How should investors fairly evaluate a fund's DPI during those initial hold-to-maturity years?

BH: Yes, this is correct. The DPI of a young portfolio can indeed look 'unattractive' while the portfolio is actually on track to deliver acceptable returns. But in this case, looking at the actual-to-expected (A/E) – the metric used by institutional investors and actuaries to measure the accuracy and quality of medical underwriting and life expectancy (LE) estimates – would tell the true story. A portfolio can be considered to be on track, even though the DPI does not appear to be strong, if the A/E confirms that policy maturities in the early years are happening as or close to when they are expected to.

GW: What specific standards or metrics do you think should be required of life settlement asset managers to report to investors to reduce the risk of an incomplete performance picture?

BH: At a minimum, we think that investors should receive a clear quarterly picture of the actual cash flows of the portfolio: cash-in from collected death benefits and cash-out for premium payments and other costs. This, on top of the actual-to-expected ratio (which should be included anyway in all documentation) would help to provide investors with the information they need to more effectively judge the performance of a portfolio at that particular time.

GW: What do you think is needed in order for life settlement asset managers to adopt DPI as a preferred performance measure, and how should the industry go about achieving this?

BH: The cash-in and cash-out information of every fund is available via standard bookkeeping tools and processes, so data availability is not the issue.

And I don't think the industry needs another complex reporting framework. For us, DPI is straightforward; it's based on information every manager already has, and it's well-known. Thus, we think that other managers confident in the cash performance of their portfolios have little reason not to provide it.

Beat Hess is Managing Partner at **AA-Partners**.

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Further Declines in HECM Endorsements Suggest Urgent Reform is Needed



Author:
Greg Winterton
Contributing Editor
Longevity & Mortality Investor

This most recent US government financial year, which ended on 30th September, delivered just 24,182 HECM endorsements, the lowest number since 2003.

Issuance in the agency-backed reverse mortgage market has been on a generally downward trajectory for many years. The issues with the product are well-discussed; the yield on the 10-year CMT (Constant Maturity Treasury index) being stubbornly high (it's hardly moved below 4% in the past two years) and the punitive mortgage insurance premium (MIP) charge both being cited by market participants as being significant drags on market activity.

The former is the biggest issue: the Department of Housing and Urban Development (HUD) uses the 10-year CMT as the benchmark for the 'expected rate', which in turn is used to calculate the initial principal limit of a HECM loan; the higher the rate, the less a borrower can borrow because the debt rolls up faster in a higher rate environment.

But many agree that reform is needed, including HUD itself, apparently, which issued *Future of the HECM and HMBS Programs and Opportunities for Innovation in Accessing Home Equity*, a request for information that "aims to gather market feedback on opportunities to enhance the HECM and HMBS programs and the appropriate role of these programs in facilitating access to home equity for senior homeowners."

"The federal government can take a long time to implement meaningful change...Having said that, the market would like to get feedback from HUD on last year's RFI responses as soon as possible"
- Michael McCully, New View Advisors

The thing is, the RFI was issued more than a year ago, on 2nd October last year. And since then, there's been nothing forthcoming – at least, publicly, at the time of writing – from HUD with regards to next steps. But, that the RFI was even issued was a source of frustration, as is the waiting game for an update.

"After much effort the previous two years getting HMBS 2.0 to the goal line, market participants were

disappointed to see the RFI at all. It felt like a 100% reset, with no explanation," said Michael McCully, Partner at New View Advisors.

"The federal government can take a long time to implement meaningful change. When Lehman Brothers proposed the original HMBS construct to Ginnie Mae in 2004, it took them three years to launch. Having said that, the market would like to get feedback from HUD on last year's RFI responses as soon as possible."

HUD didn't answer directly a question from *Longevity and Mortality Investor* with regards to when a public follow-up to the RFI might be published, but a spokesperson did say in an emailed statement that "HUD appreciates the public input received in response to the RFI. HUD continues to monitor the HECM and HMBS programs and evaluate opportunities to support the programs' long-term effectiveness and sustainability."

But while investors that like to have exposure to reverse mortgages in their portfolios face a dwindling opportunity set – for now – in the agency space, they do have a ready-made replacement in the proprietary reverse mortgage market, which has delivered more than \$3.5bn in aggregate issuance in the first three quarters of the year, compared to approximately \$2.7bn in the HECM space.

The proprietary market is free from some of the shackles of the restrictions imposed by the HECM structure in the sense that there is no MIP, and there is no IPL (initial principal limit, the gross maximum dollar amount a borrower is eligible to borrow from their home equity at loan closing), making the product arguably more straightforward and easier to understand for the consumer.

While interest rates tend to be higher in the proprietary market, given that a third of Americans that take out a reverse mortgage do so to pay off their forward mortgage, it becomes clear that when more people have access to more cash, more of them will enter into a reverse mortgage transaction to settle their existing debt and enjoy the freedom that not having a monthly mortgage payment brings.

But both sides of the US reverse mortgage market were dealt a setback in September when the US Federal Reserve raised interest rates for the first time since July 2023, and while recent

comments by Federal Reserve Bank of New York President John Williams suggest that the upcoming October meeting might not result in another increase, traders are pricing in a movement at December's meeting, which would mean a 50 basis point increase in just three months, which would likely put further upward pressure on the 10-year CMT.

But while HUD can't do much about interest rates, it can do a lot about some of the other issues facing the HECM part of the space.

The National Reverse Mortgage Lenders Association, for example, in its response to HUD, said that it would like to see the FHA shift HECM loan interest rate benchmarks from the CMT index to SOFR. Because secondary market securities already use SOFR, aligning loan rates eliminates index mismatch risk for investors. For the primary market, this alignment lowers hedging costs and boosts security prices for lenders. Consequently, lenders can pass these savings directly to

Mutual of Omaha said that a tiered, risk-based MIP structure that aligns pricing with utilization and borrower risk would expand access to lower-risk borrowers, strengthen MMIF sustainability, improve HMBS market confidence and enhance affordability for line-of-credit users.

Some of the other responses to the RFI are rather quite punchy indeed, including one suggestion that the HECM and HMBS programs be eliminated altogether.

Whether HUD takes such drastic steps remains to be seen. But while there are some good months of steady HMBS issuance figures – August 2026 was the 'best' month this year – that volume is based heavily on compounding interest, subsequent line-of-credit draws, and legacy pool tail securitisations.

But unless – until? – HUD reforms the agency space, the downward trend of recent years is likely to continue. And if interest rates don't come down soon, there could be an impact in the proprietary market, even if it is expected to provide some support overall.

"Overall HMBS was down again in September, with first participation production totalling just \$266m, so we are already seeing material decline. As long as the 10-year treasury remains above 5%, volume will continue to fall. Total HMBS outstanding will shrink even faster as HECMs from the larger Covid-era origination years begin to pay off due to the 98% assignment threshold. Since peaking at \$60bn in January 2023, the HMBS float has been falling by \$1bn per year," said McCully.

"Non-agency proprietary reverse mortgage lenders have tightened margins to keep product interest rates to borrowers below 10%, but that may not be sustainable. If rates to the consumer do go north of 10%, non-agency origination volume may fall as well. However, overall proprietary volume has held up more than HECM and now has an approximate 60% share of all reverse mortgage origination. We predict proprietary market share

"Overall proprietary volume has held up more than HECM and now has an approximate 60% share of all reverse mortgage origination. We predict proprietary market share will continue to increase, and HECM market share will continue to decrease, even if combined dollar volume declines"
- Michael McCully, New View Advisors

senior borrowers through lower upfront fees, better interest rate margins, and higher available borrowing limits.

New View Advisors says that returning to true sale accounting methods would bring back some of the banks and other larger, more established lending institutions, which it says would further facilitate liquidity and origination volume.



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