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Conning Expects Surge in Life Settlements as Economy Falters

Scott Hawkins, head of insurance research for Conning

More seniors stressed by financial circumstances may want to sell their policies, firm analysts say in an annual review.

By Donna Horowitz

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Conning Inc. analysts in their latest annual review said they expect to see growth in the life settlement market as seniors stressed amidst faltering economic conditions look for a new source of income.

"Consumers are likely to seek additional sources of income to offset the economy pressures," Roberta Lauria, assistant vice president of insurance research at Conning, said in a Tuesday, Nov. 1, statement about the review, titled "Life Settlements: Growing Through Turbulence."

She added: "Investor demand for alternative assets is forecast to remain strong. Both factors are positive for life settlement growth. In addition, the development of a broader, direct-to-consumer life settlement market is likely to widen the number of consumers who can access life settlements."

Scott Hawkins, head of insurance research at Conning, pointed out that transactions in the market fell in 2021 in terms of face amount settled and in-force amount of settled policies.

The Life Settlements Report found that purchases decreased in 2021 by 9.38%, possibly due to Covid-19, as more people hung onto their policies. The number of policies purchased fell to 2,937 in 2021 from 3,241 in 2020, and the amount of the face value dropped to $3.99 billion in 2021 compared with $4.59 billion in 2020.

"Given the favorable nature of the drivers of life settlement market growth, our analysis of the life settlement market is that the average annual volume of new life settlements over our ten-year forecast is approximately $5.2 billion," Hawkins said in the statement.

"For investors, the insurance companies whose policies they purchased continue to be financially strong. The rising interest rate environment is favorable for the premium optimization strategies used by life settlement investors to improve their returns," he added.

Conning's latest analysis was contained in its 19th annual report on the life settlement market. Hartford, Conn.-based Conning is an investment management firm that serves the life insurance industry.

Hawkins told The Deal his company's forecast for life settlement growth takes into consideration economic factors that show inflation likely through next year, the possibility of a recession and increased volatility in the equity market that might cause some people to attempt to conserve their incomes.

He said there was a spike in purchase of life insurance policies in 2021 because people were afraid of Covid. Now, some of those new policy owners may no longer be as concerned about the coronavirus and decide to sell their policies, he said.

In addition, he said demand will grow from investors because of life settlements' low correlation to the equity market.

An executive summary of the Conning report provided only to the press said an increasing number of investors interested in the asset is "met with the increasing number of retiring Baby Boomers seeking ways to increase their retirement income or pay for LTC (long-term care)." In addition, it said development of a broader, direct-to-consumer life settlement market is likely to increase the number of consumers who can access life settlements.

The executive summary also put the average potential gross market size it forecasts over 10 years at $220 billion.

Conning reported that the 42 insurance companies targeted by life settlement investors between 2017 and 2021 remained positive.

It said the average risk-based capital, or money set aside in reserves to pay for death benefits, remained above the industry average for those 42 insurance companies.

The report said the average portfolio earnings rate for the 42 companies between 2017 and 2021 was slightly lower than the industry average. Hawkins said this is because these companies tend to have more conservative investments. At the same time, the 42 companies experienced a smaller decrease in their portfolio yields for that period than the rest of the industry, Conning further found.

In addition, mortality rates are higher for the 42 companies than the remaining companies in the life insurance industry. Lower reinsurance cession rates by those companies likely play a role in that difference, Conning said.

Lapse rates for those 42 companies were lower than the rest of the industry while surrender rates were similar, Conning said. Operating margins for the 42 companies were higher than the rest of the life insurance industry.

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COMPANIES MENTIONED

Conning Holdings Corp.

PEOPLE MENTIONED

Scott Hawkins