



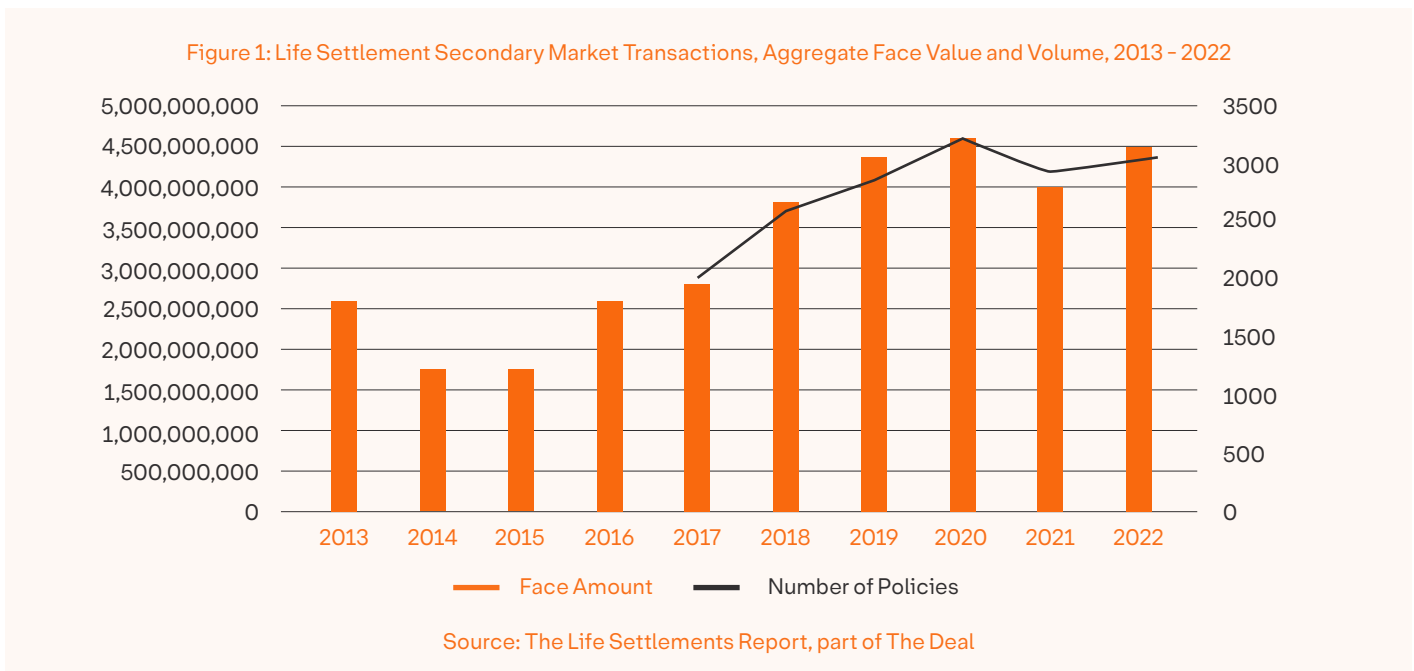
## Size of the Life Settlement Market

The size of the life settlement market can be observed in three different ways: the total face value/ number of life insurance policies transacted in the industry's secondary market each year; the total face value/ number of life insurance policies transacted in the industry's secondary and tertiary market each year combined; the total assets under management of investment funds in the market. While the first can be calculated from publicly available data, that's not the case for the latter two.

### Secondary Market

In general, when the life settlement industry talks about the size of the market, it does not refer to new capital that is invested into the market each year, but the number of new transactions and the total value of those transactions that are settled annually in the secondary market. Life Settlements trade publication, *The Life Settlement Report*, part of *The Deal*, publishes data annually that tracks the number of policies purchased by licensed life settlement providers in the US, along with the total face amount of these policies. The data is sourced primarily from state insurance departments, which maintain this data based on providers licensed in their state.

Figure 1 below shows both the aggregate face amount of secondary life settlement transactions reported and the aggregate number of transactions in the past six years.



Policies mature every year, and investors sometimes choose to let underperforming policies lapse. Therefore, the total number of policies that exist in the life settlement market decreases overtime unless new policies are purchased on the secondary market. While the total US dollar size of the secondary market has been steadily growing since a low of \$1.3bn in 2011, it is still well off its peak of \$12.2bn recorded in 2007. Notably, however, before the global financial crisis (GFC), a large number of premium finance programmes created a glut of policies that were sold in the secondary markets, which accounts for higher levels observed in the years prior to the GFC.

# Potential Size of the Life Settlement Market

It's a common understanding in the life settlement market that the penetration rate (the number or value of policies settled each year when compared to the potential number or value of policies that could be settled) is low. Asset management firm Conning publishes an annual life settlement-focused report in September each year. In its most recent edition, Conning's data suggests that an average (the range varies) of approximately \$200bn of potential transactions existed in 2022, which is set to rise to an average of around \$230bn in 2031<sup>[1]</sup>. In 2022, there were only \$4.5bn worth of transactions in the life settlement market<sup>[2]</sup>, which assumes a penetration rate of just 2.25% of the potential universe.

The low penetration rate can also be implied from data contained in the American Council of Life Insurers' (ACLI) annual fact book, which provides statistics and information on trends in the US life insurance industry. When comparing the total value of in-force life insurance and the annual lapse rate in the United States versus the face value transacted in the secondary market, the gap is significant. In 2021 (the most recent year that the ACLI data is available for), the total value of individual in-force life insurance in the United States was \$13.57trn. The combined termination rate (the lapse rate plus the surrender rate) in 2021 was 4.6%, or \$624.2bn of the total value. The life settlement secondary market was \$4.0bn, or 0.64% of the total value of the lapsed and surrendered policies.

If the percentage value of all in-force life insurance in the United States that would qualify for the life settlement option were just 2%, then the life settlement secondary market could potentially be three times its current size in any given year.

There are many reasons why insureds do not sell their life insurance policy, including the desire to keep it themselves, or a lack of awareness that the life settlement option exists to them.

## Tertiary Market

In the tertiary market, individual policies or portfolios of policies are traded between investors. These trades tend to be private, and thus, largely undisclosed. There are three broad types of tertiary transactions: private bilateral deals between market participants; active trading strategies where investors warehouse policies purchased on the secondary market and trade these policies on bloc or individually; and large portfolio auctions that tend to be conducted more publicly.

The size of the tertiary market is therefore difficult to estimate. Anecdotal evidence suggests that the total US dollar volume of deals in the tertiary market is significantly higher than the secondary market. Life settlement portfolios often include policies that are many years old, so the sheer number of policies transacted each year is naturally higher than the secondary market, which consists of only new settled policies. In addition, these portfolio sales are frequently valued in the hundreds of millions of dollars – with deals worth over a billion dollars, whilst being rare, have also been observed. However, this activity, regardless of deal size, does not increase or decrease the size of the in-force life settlement market, because these deals involve policies already settled.

## Assets Under Management (AUM)

In the alternative investment industry, many investors, asset managers, and data providers, refer to assets under management (AUM) when measuring the size of the market. This is a common occurrence in the hedge fund space, for example. However, using this measure for the life settlement market is not generally considered to be a useful one because obtaining AUM data is difficult.

Whilst regulatory filings data in the United States via the Form D and Form D/A can provide some information, some of these funds are diversified funds that invest in more than life settlements. Additionally, the life settlement market has a significant number of asset managers based in Europe, managing European-domiciled funds, sometimes with few or no US investors. Sourcing accurate data from public sources about these funds is difficult.

<sup>[1]</sup> Life Settlements: Growing Through Turbulence, Conning, September 2022

<sup>[2]</sup> The Life Settlement Report, part of The Deal, June 2023