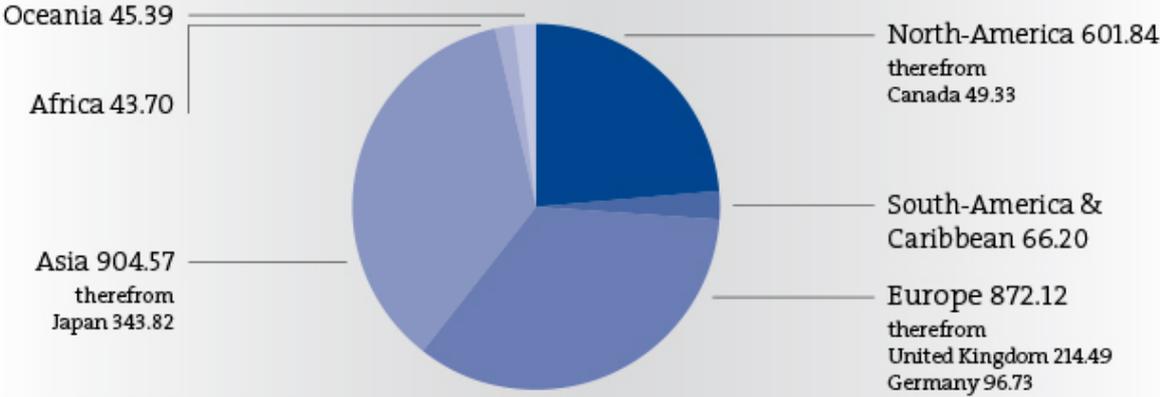


The US Secondary Market

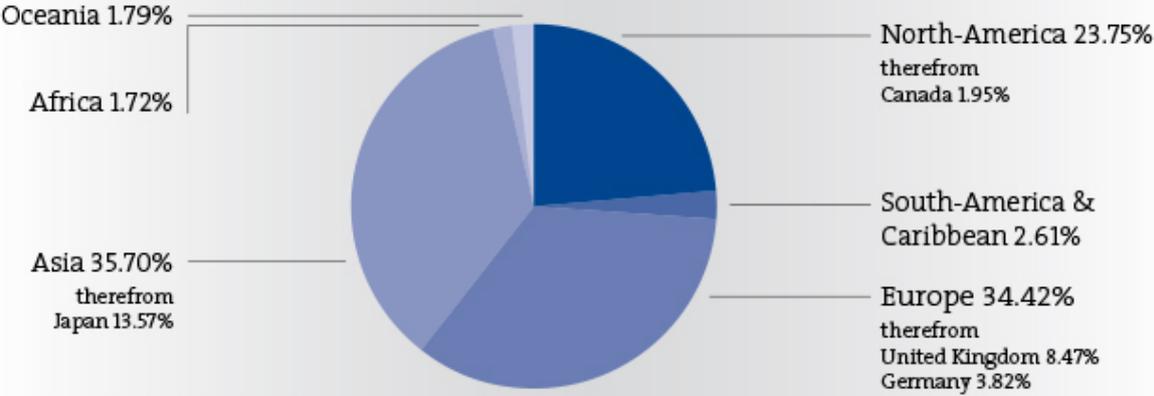
In 2015, income from premiums of life insurers in the USA and Canada totaled to 601.84 million USD. With a premium share of approx. 24 percent, the North American market is the world's largest market for life insurance policies. Moreover, the market holds a tremendous potential because well over half of all life insurance policies in the U.S. are terminated prematurely.

Premium volume by regions (Life Business)
Share of world market 2015 in millions of USD



Source: Swiss Re, *sigma* 03/2016

Premium volume by regions (Life Business)
Share of world market 2015 in %



Source: Swiss Re, *sigma* 03/2016

Different Types of Policies

In contrast to the term and endowment life insurance known in the UK and Germany, the policies offered for purchase on the American market are mainly special life insurance policies with a saving portion (universal life, whole life) or without a savings portion (term life insurance). Here a distinction is generally made between insurance policies with limited terms (term life insurance) and those which exist for the entire life span of the insured (permanent life insurance).

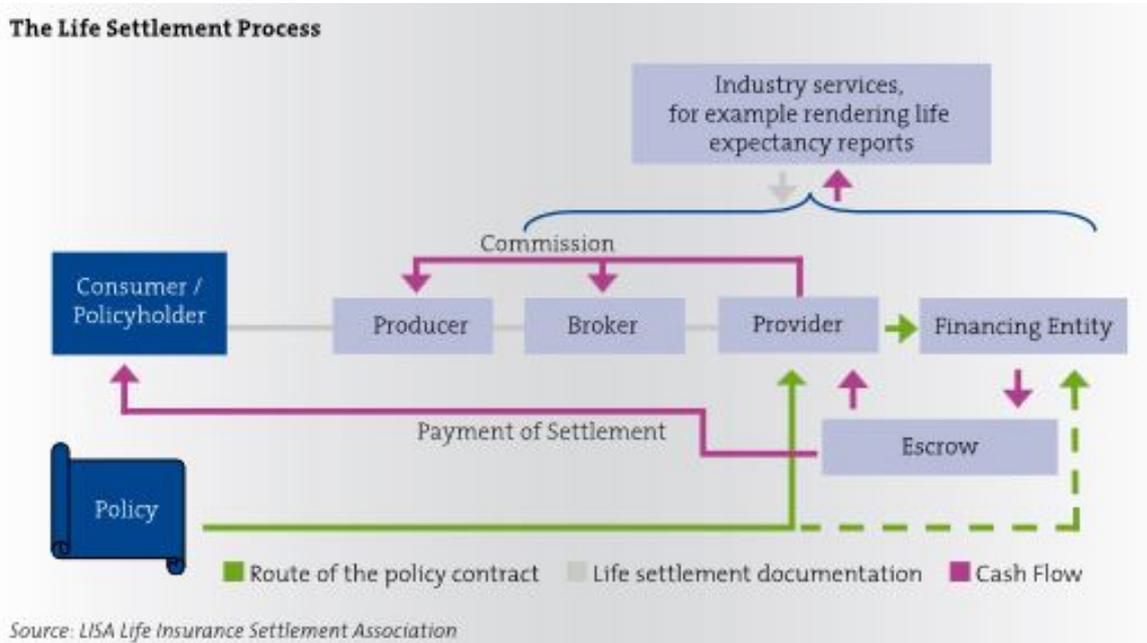
Since such life insurance policies, in general, were not made to provide for old age but to hedge individual risks, for example, to secure the family in case of death, to finance inheritance estate taxes or obligations from a mortgage to purchase a house, the insurant frequently ceases to show interest in maintaining his contract and the required – partially high – premium payments if personal life conditions change and the insurant has reached an advanced age.

Instead of cancelling the policy to obtain a low (or even no) surrender value, the insured may generate higher proceeds selling their policy on the secondary market.

Mode of Operation of the U.S. Secondary Market for Life Insurance

Investors acquire this special life insurance policy (senior life settlements) from the insureds (persons usually older than 75 year) to be entered as new beneficiaries; they take over the premium payment obligations and collect the complete insurance sum payment when the insured event occurs (death of the insured). The difference between the death benefit sum and purchase price plus other paid premiums, thus, substantially influences the return from this business model.

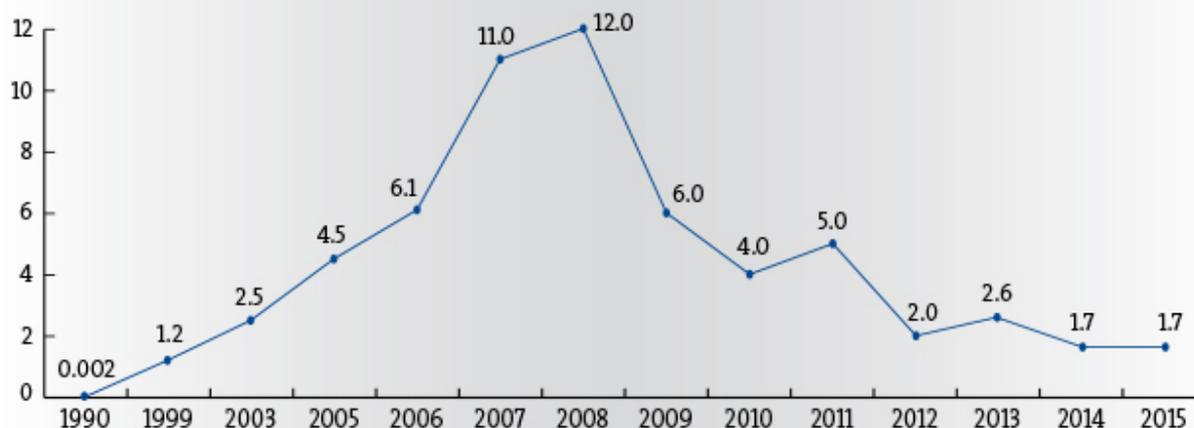
Contrary to the German and also the British secondary market for life insurance, the exact amount of the maturity value (death benefit) is known for U.S. life insurance policies, although the time of the insured event remains uncertain. In order to still provide a maximum forecast security, specialized medical underwriters determine the assumed residual life expectancy of the insured.



Therefore, the quality and reliability of these life expectancy assessments plays a decisive role: It influences the purchase price of the policy / added value for the vendor as well as the forecast reliability and respective investment success of the purchaser.

The processes and forecast quality of medical underwriters in the U.S. have considerably improved over the past years. A large database for reliable back-testing putting more focus on the newest medical and socio-demographic knowledge, updating of the mortality table and improved actuarial methods and processes ensure that today's assessments are much more precise and reliable than just a few years ago. In addition, the due-diligence process required for the purchase of each individual U.S. policy, the policy pricing and quality evaluation as well as the precision of medical expertises require a high degree of special know-how and profound market knowledge

Development of the life insurance policies trade volume (in USD billion)¹



¹ The figures refer to estimated volumes since no clearly documented market data exist in the United States.

Source: BVZL

Since the beginning of the U.S. secondary market for life insurance in the Nineties, the government also has implemented and established complex measures for market regulation and market control.

Accordingly, comprehensive regulations, licensing and permit obligations were established in almost all federal states of the USA, partially crossing federal state borders. Statistic basics and instruments for fair pricing and a transparent purchase process were introduced. In summary, the industry underwent a professionalization process, from partially negative experiences, the correct and necessary conclusions were drawn – to the benefit of consumers and investors.

New Chances and Perspectives

The asset class 'U.S. Life Settlements' has grown up after initial problems. The increasing professionalization of all market players – mainly induced or commanded by activities of the different international industry associations, an almost uniform stateside regulation, best practice and transparency initiatives (['BVZL Best Practices: Guidelines for Investors and Suggested Best Practice Standards for Professionals in the US Life Settlement Investment Industry'](#)), continuously improved forecast quality of medical examiners and the partially built up medical and actuarial know-how of German initiators increasingly make investments in used U.S. life insurances a very interesting investment option in view of stable purchase returns, for private but particularly for (semi-)professional investors during the AIFM implementation.

U.S. Life Settlement Investments are an excellent tool for diversification of an investment portfolio providing attractive interest rates with calculable risks even in a low-interest environment.

In general, the handling of the so-called 'biometric risks' and investment options in longevity risks will gain increasing importance. In order to meet the challenges of the demographic development, e.g. in the health system and retirement system in a sustainable way, intelligent capital market products may present a suitable tool for the transfer of longevity risks. More than ever experts are needed capable of assessing and managing the biometric risks, including the longevity risks. Thus, the pricing of insurance and retirement products or services in the health sector of the future will be stronger linked with the relevant statistic life expectancy forecasts.

The BVZL and its member companies will use the know-how acquired over the past years to increase its focus on the topic 'longevity' in future, especially in view of the strongly growing target group of the golden agers to open up new business fields promising also attractive investment alternatives for interested investors.