

Life settlements are a win-win for consumers and investors

Groundbreaking research shows secondary life insurance market benefits both

Powerful new research based on a study of more than 9,000 life insurance policies, reveals that Americans who sold their unwanted life insurance policies, collectively received more than four times the amount they would have received had they surrendered them to their life insurance companies.



The study of insurance policies with an aggregate death benefit in excess of \$24 billion will be presented today by Professor Narayan Naik, at an event at London Business School.

Narayan Naik, Professor of Finance, London Business School, says: "The evidence suggests that the life settlement market has helped significantly in enhancing the welfare of policy-owners who, instead of surrendering, sold their life insurance policies in the secondary market".

The study also found that the average expected return for qualified, institutional investors purchasing the large sample of life settlements was 12.5% per annum, which was 8.4% in excess of treasury yields. During recent years, the study found that the average expected return had risen substantially to 18.3% per annum in 2011, some 15.9% in excess of treasury yields.

As the expected return depends critically on the life expectancy of the insured, the independent and comprehensive study conducted sensitivity analysis. It found that even if you assumed life expectancy estimates had been understated by three years, investors purchasing this sample of life settlements could still have expected a positive return of 3.2% per annum.

Given the expected return and the fact that longevity risk is largely uncorrelated with other financial markets, Professor Naik's concludes: "The life settlement option appears to be an interesting investment opportunity for institutional investors willing to include longevity risk in their portfolio and to commit capital for the medium term."

Furthermore, the study also highlighted that the additional source of tax revenue the market provides to the government could potentially be used to fund socially beneficial welfare programs such as Medicaid and Medicare.

The research has been welcomed by the European Life Settlement Association (ELSA).

Simon Erritt, Chair, ELSA, said: "ELSA welcomes this groundbreaking research and the spirit of transparency and openness that lies behind it, and believes that further collaboration between the market and the academic community will help cement the industry's growing reputation as a socially-responsible and financially-compelling alternative to traditional investment asset classes."