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## ELSA Pricing and Investment Symposium

London, 8<sup>th</sup> December 2014

At the end of last year SL Investment Management (SL) was delighted to attend the European Life Settlement Association's (ELSA's) symposium regarding pricing and investment in the Life Settlement industry. This half-day symposium was the latest in a series of events organised by ELSA continuing with its aim of providing further education to the Life Settlement industry on a wide variety of issues.

The event took place in London, UK and was well attended with around 50 prominent industry figures joining the discussions. SL's actuarial team were particularly interested in the presentations on anti-selection and the draft release of new mortality tables of significant interest to the industry. One of SL's Actuarial Analysts Fred Bell's summary of the key points from the discussions can be found below.

### Quantifying the Effect of Anti-Selection on Life Settlement Pricing

Dr Jochen Ruß presented some of the findings from an investigation conducted by himself and two professors at the Universities of Georgia State and Illinois State respectively. The focus of the talk was towards assessing the existence of anti-selection within the Life Settlement cohort of the population.

The investigation was sponsored by the LE Underwriter Fasano Associates, who provided the team with access to their underlying database of 50,000+ underwritten lives. Dr Ruß's conclusions from the analysis conducted was that it lends credibility to the existence of a period of lower mortality following the settlement date of a Life Settlement transaction, compared to those that do not settle. This anti-selection period would appear to last for between 5 and 7 years before wearing off.

SL have long-believed in the existence of such an anti-select period following the purchase of a Life Settlement and have made allowance for such in pricing for almost a decade. Assuming a normal level of expected deaths immediately following settlement is likely to result in paying higher prices for assets and consequently reduce potential returns.

Analyses are only as strong as the data underlying them, and the debate concentrated on this aspect. The main limitation of the results appears to be that only a small number of cases are known to have settled compared to the overall dataset (~2%). However this proportion will rise as more known settlement data points are added. Dr Ruß is keen to work with other Life Settlement market participants to augment the available set of data, and to extend and improve on the reliability of such analysis.

### The Potential Impact of 2014 VBT on Life Settlement Pricing

The Society of Actuaries issued a draft version of its latest life assurance mortality table Valuation Basic Table 2014 (VBT2014) in August 2014. This is of key interest to the Life Settlement Industry, as many participants base their pricing and/or valuation on the preceding version of the mortality table (VBT2008). ClearLife Limited gave a presentation of the draft VBT2014 table currently in consultation, the differences from VBT2008 and its potential affect on the pricing and valuation of Life Settlements.

SL has been tracking the Society of Actuaries progress in the development of the 2014 VBT for the last few years, as the working party tasked with its production has released periodic updates and reports over that time. The information in the presentation regarding the constituent parts of the 2014 VBT and its creation has been publicly available for some time. However SL found the second half of the



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presentation and the ensuing discussion provided an interesting take on how it may affect the pricing of Life Settlement policies.

In essence, the conclusion was that the effect on the pricing or valuation of Life Settlements could be both positive and negative, depending on the specifics of the policy and the valuation methodology employed with regard life expectancies. Positive effects may be found on policies where the insured lives are very young, very old, smokers or the LE reports are older.

In an opinion supported by SL, the presenters stated the importance of analysing the potential effect on the valuation of current portfolio cases as well as the pricing of new acquisitions. It is necessary to both ensure that the assets in portfolio are appropriately valued going forward and that the prices paid for future assets adequately accounts for the mortality profile.

Overall SL found the symposium a useful opportunity to catch up with other industry participants and to hear how industry thinking is developing. We mirror ELSA Chair Simon Erritt's closing sentiments in welcoming new members into ELSA and looking forward to a successful year ahead in 2015.

For more details on the symposium, or to discuss Life Settlement investments in general, please contact [David Roxburgh](#) or [Louise Witts](#).