Traded Policies as a New Asset Class

An article for FEIFA

By Jeremy Leach, Managing Director, Managing Partners Limited and manager of the Traded Policies Fund

The financial crisis of 2007-08 severely shook many investors' faith in diversification as a way of reducing risk. This was because the main asset classes – including equities, bonds, property and in some cases, even cash investments – all incurred losses.

Amid all the turmoil however there was one relatively new asset class that, in the right hands, still managed to deliver positive and steady returns. That asset class is traded life policies (TLPs), also known as life settlements.

TLPs are US-issued, whole-of-life assurance policies sold before the maturity date to allow the original owner to enjoy some of the benefits during their lifetime. The transaction by which an existing life insurance policy is sold to third parties is known as a life, or traded, settlement. Under the transaction, the buyer of the policy becomes the new beneficiary.

The fundamental advantage of TLPs for investors is that the face value of a policy is known; what is unknown is when the life assured will pass on and that value will be paid out. The premiums will have to be paid until that date.

Some large institutions, such as banks, buy TLPs directly and build up their own substantial portfolios. But IFAs can invest their clients in a growing number of funds managed by professional managers.

It is not easy to invest in TLPs: managers must use the right actuarial analysis to buy TLPs at the right discounts and carry out sufficient diversification to control the risk. But with the right investment process it is possible to deliver secure, incremental returns of around 8-10% per annum.

TLP funds are priced on a monthly basis by using an actuarial model that aims to equitably unwind the growth in value of the policies, making adjustments for claims experience and future premium liabilities. The result can be an extremely smooth and predictable growth trend. And nothing appeals more to investors than that.

316 words