Insurance Contracts (Life Settlements): An Institutional Deep Dive into a Non-Correlated, Actuarially Driven Asset Class

Note on Terminology: In this report, the term “insurance contracts” is used as a synonym for what the industry commonly calls life settlements. The mechanics and asset-class characteristics remain identical; we adopt the insurance contract framing for alignment with institutional and contractual language.

Executive Summary

Insurance contracts represent a unique intersection of longevity science, actuarial finance, and stable return investing. As a regulated, institutional asset class with over two decades of operational history, insurance contracts offer non-correlated, risk-adjusted returns through the acquisition of life insurance agreements on the secondary market. This paper presents an in-depth analysis of the structure, mechanics, return characteristics, regulatory framework, and institutional relevance of insurance contracts, with a focus on portfolio integration and the value proposition for wealth managers and financial professionals.

1. Introduction to Insurance Contracts

An insurance contract transaction is the transfer of ownership and beneficiary rights of an existing life insurance policy from the original policyholder to an institutional investor. In exchange, the policyholder receives a lump sum that exceeds the cash surrender value but is less than the death benefit. Once acquired, the investor assumes responsibility for all future premium obligations and ultimately receives the contractual death benefit upon the insured’s passing.

Insurance contracts were formally recognized as an asset class in the early 2000s, gaining momentum as institutional investors and regulatory bodies acknowledged their potential for long-duration, non-market-correlated returns. The core value driver is the actuarially modeled life expectancy of the insured, not macroeconomic or capital market trends.

2. Market Structure and Policy Origination

The secondary market for insurance contracts primarily sources policies from individuals aged 70 and above, who no longer require their coverage or face unaffordable premium obligations. Origination begins with a life expectancy (LE) assessment, performed by independent medical underwriters using decades of mortality data.

Eligible contracts typically:
- Have face values exceeding $250,000
- Are issued by highly rated carriers (A+ or better)
- Include universal life or convertible term contracts

Once suitability is confirmed, the policy enters a competitive bidding process among licensed insurance contract providers. Institutional buyers conduct underwriting reviews and legal due diligence before final acquisition.

3. Investment Mechanics and Cash Flow Structure

Upon acquisition, contracts are transferred into SPVs or fund structures. Investors commit capital, which is used to pay premiums, service the portfolio, and fund reserves. Cash flow realization occurs upon contract maturity—when the insured passes and the death benefit is paid.

Investment Vehicle Types:
- Private closed-end funds
- Structured notes with income components
- Institutional SPVs

Key Mechanics:
- Returns are driven by IRR relative to life expectancy vs. realized lifespan
- Semiannual coupon structures can be layered for income-focused strategies
- Contracts are pooled for diversification across age, gender, and carrier

4. Return Profile and Risk-Adjusted Performance

Diversified insurance contract portfolios have historically produced net IRRs in the 8–12% range, with substantially lower volatility compared to traditional risk assets. Importantly, insurance contracts exhibit no meaningful correlation to equity markets, interest rates, or economic growth.

Sharpe Ratio Comparison (Historical Averages):
- Insurance Contracts: ~2.5
- U.S. Equities (S&P 500): ~0.6
- High-Yield Bonds: ~0.4

5. Non-Correlation and Portfolio Diversification

Insurance contracts are inherently non-correlated due to their dependence on actuarial outcomes rather than market dynamics. They prove especially valuable during equity volatility, rising rates, inflationary pressures, or recessions.

Monte Carlo simulations of 60/40 portfolios incorporating a 10–15% allocation to insurance contracts demonstrate improved Sharpe ratios and lower standard deviation.

6. Regulatory Framework and Oversight

Insurance contract transactions are regulated in over 45 U.S. states, covering more than 90% of the population. Regulatory bodies such as the NAIC enforce standards for licensing, disclosures, and anti-fraud protections.

Key elements:
- Mandatory disclosures for sellers
- Cooling-off periods
- Provider and broker licensing
- Verification of policy ownership and insurable interest

7. ESG and Social Utility Considerations

Insurance contracts contribute meaningfully to the financial dignity of aging individuals. Proceeds often support long-term care, retirement, estate planning, or philanthropy. The asset class promotes financial inclusion by unlocking contractual value that would otherwise be lost through lapse or minimal surrender.

8. Operational Infrastructure and Institutional Access

Modern insurance contract platforms operate with institutional-grade governance—combining underwriting, servicing, legal, and actuarial systems. Independent custodians, auditors, and administrators ensure transparency and scalability.

9. Use Cases for Financial Advisors and RIAs

Insurance contracts are particularly useful in:
- Income generation without rate sensitivity
- Capital preservation with non-market exposure
- Tax-advantaged returns inside qualified accounts

Advisors—particularly in Latin America—are increasingly integrating U.S. insurance contract portfolios for USD yield and diversification.

Conclusion: A Resilient Asset Class for Modern Portfolios

Insurance contracts (life settlements) offer a compelling blend of actuarial discipline, steady return potential, and low market correlation. Backed by strong regulation and institutional adoption, they are well-positioned for long-term portfolio integration.

For financial professionals seeking solutions that are stable, predictable, and socially impactful, insurance contracts deliver a distinctive value proposition—bridging financial outcomes with human dignity.