CG Analysts

The Crucial Role of Regular Medical Record Reviews in Life Settlement Investments

Fergus Bescoby
Head of Medical Underwriting
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Tel: +44 (0)1473 226106 Fax: +44 (0)1473 215461 www.cganalysts.com
3rd Floor, St Vincent House, 1 Cutler Street, Ipswich, IP1 1UQ United Kingdom

Introduction

Life settlement investing in the United States involves purchasing life insurance policies from people who decide they no longer need the coverage or can't justify the ongoing premiums. The success of these investments depends on having a clear understanding of the insured's life expectancy (LE)—not just when the policy is acquired, but throughout the life of the investment. That's why regular medical record reviews play such an important role. They help investors stay informed about changes in the insured's health, leading to more accurate valuations and better investment decisions. In this article, we'll explore why ongoing medical record reviews are a critical part of managing life settlement portfolios and the value they provide over time.

Understanding Life Settlement Investments.

A life settlement gives policyholders the option to sell a life insurance policy instead of surrendering it or letting it lapse. An investor buys the policy for a lump sum that's higher than its cash surrender value but lower than the death benefit. From there, the investor keeps the policy in force by paying the premiums and eventually collects the death benefit.

Whether the investment makes sense comes down to the numbers, and one of the biggest variables is how long the insured is expected to live. If that estimate is off by several years, the economics of the deal can change significantly. A longer life means more years of premium payments, while a shorter one can improve returns. That's why LE isn't just another data point—it's one of the assumptions that underpins the entire investment.

The Moving Target: LE Volatility

LE isn't a fixed number in the life settlement market—it's an estimate that changes as new medical information becomes available. Since that estimate has a direct impact on both future premium costs and expected returns, investors need to understand what can cause it to change over time.

- **Longer than expected (extension risk):** Improvements in medical treatment can allow people to live much longer than originally projected. Conditions that were once considered life-limiting may become manageable for years, extending the insured's lifespan. Periodic updates to actuarial mortality tables can also lead to longer LE estimates.
- **Shorter than expected (impairment risk):** A serious new diagnosis can quickly change the outlook. Progressive conditions such as Alzheimer's disease or other forms of dementia, along with significant physical decline or major health events after the policy is purchased, may substantially reduce the insured's expected lifespan.
- **In line with expectations:** Sometimes there are no major surprises. If the insured's health changes broadly as anticipated during the original underwriting process, LE estimates are likely to remain relatively stable.

The Role of the Medical Underwriter

Medical underwriters are central to the life settlement process. Their job is to review the insured's overall health, looking at medical history, current conditions, lifestyle factors, and any changes that could affect LE. Drawing on all of this information, they estimate the insured's remaining lifespan and provide the analysis investors rely on when assessing a policy. For particularly complex medical cases, they may also consult a Medical Officer before reaching a final opinion.

Their involvement doesn't stop once a policy has been purchased. As part of ongoing portfolio management, underwriters periodically revisit each case to determine whether the insured's health has changed in a way that could affect the original LE estimate. These regular reviews help ensure that policy valuations remain as accurate as possible throughout the life of the investment.

The Impact of Modern Medical Advancements on Longevity

Medical advances are constantly changing the outlook for many health conditions, which is why LE estimates can't be treated as a one-time exercise. New treatments, better technology, and a growing focus on prevention are helping people live longer and enjoy a better quality of life than was possible just a few years ago.

A few examples stand out:

- **Heart disease:** Better medications to control cholesterol and blood pressure, along with procedures such as angioplasty and stenting, have dramatically improved survival rates for people with cardiovascular disease.
- **Cancer:** The outlook for many cancer patients has changed considerably. Targeted therapies and immunotherapy are helping some people live much longer, even with cancers that were once associated with very poor survival.
- **GLP-1 medicines:** Drugs like semaglutide have transformed the treatment of obesity and type 2 diabetes. As well as helping patients lose weight and manage blood sugar, they're reducing the risk of serious cardiovascular and kidney complications.
- **Organ transplants:** Advances in surgery, donor matching, and anti-rejection medication mean organ transplantation is now a realistic long-term treatment option for many patients with advanced organ failure.
- **Medical technology:** From robotic-assisted surgery to continuous glucose monitors and wearable devices, technology is making it easier to treat disease, monitor patients, and catch problems before they become serious.
- **Healthier lifestyles:** Smoking rates have continued to fall, more people are taking part in routine screening programmes, and there's a much greater awareness of the benefits of diet and exercise. All of these factors are contributing to longer LE.
- **Artificial intelligence:** AI is still finding its place in healthcare, but it's already showing real promise. By helping clinicians spot cancers and cardiovascular disease earlier, it has the potential to improve outcomes through earlier diagnosis and treatment.

For medical underwriters, these developments aren't just interesting—they can have a direct impact on LE assessments. Staying up to date with changes in medical practice is an important part of the role, as is working with actuaries when new evidence suggests mortality assumptions or condition-specific ratings need to be updated.

The Oncology Revolution: Saving Lives and Challenging Investors

The impact of medical advances on investment valuation is particularly evident in oncology. An investor may acquire a life insurance policy based on the expected survival of an insured with a particular cancer, using historical mortality data to estimate LE. However, the introduction of a new

biologic or targeted therapy can significantly improve outcomes, extending survival well beyond the original projection. In some cases, an individual diagnosed with stage IV cancer—once associated with a very limited LE—may respond so well to treatment that they live for many years, or even return to a near-normal quality of life.

For life settlement investors, this creates longevity risk. When an insured outlives the original LE estimate, premiums and fees must be paid for longer than expected, delaying the eventual death benefit and reducing the investment's internal rate of return (IRR). Ongoing reviews of medical records help identify when an insured starts receiving new therapies, enabling underwriters to reassess LE and investors to update their financial projections. If treatment substantially extends LE, investors may conclude that continuing to fund premiums and fees is no longer commercially viable and choose to let the policy lapse. At the same time, these reviews also identify the development of unrelated medical conditions that could shorten LE, ensuring valuations remain as accurate as possible.

Frequency of Medical Record Reviews

Maintaining an up-to-date picture of an insured's health requires medical records to be reviewed on a regular basis. In most cases, updated reports should be obtained every 12 to 24 months. More frequent reviews, however, are appropriate where an insured has a serious, unstable, or rapidly progressing condition. In these cases, obtaining medical information every six months—or even quarterly—helps ensure that significant changes in health are identified as soon as possible. This is especially important for individuals with early signs of cognitive decline, where regular neurological assessments can provide valuable insight into the rate and extent of disease progression.

Challenges in Compliance and Authorization

Obtaining medical information on a consistent basis is not always straightforward. As time passes, some insureds become less responsive, making it more difficult to secure updated health information. Administrative issues can also arise when requesting medical records, particularly if HIPAA or other medical authorisations need to be renewed or if a healthcare provider refuses to accept the limited power of attorney signed when the policy was sold. Despite these practical challenges, regular access to current medical records remains essential for effective risk assessment and portfolio management.

The Ongoing Role of Service Providers

Many life settlement investors engage specialist service providers to manage the day-to-day administration of their policies. These providers liaise with healthcare organisations to obtain medical records, ensure the necessary HIPAA and other regulatory authorisations are in place, and oversee the secure handling of sensitive medical information.

The timing of medical record requests is usually determined by the investor and reflects the insured's health status and the level of monitoring considered appropriate. Service providers then carry out these requests on the investor's behalf, while also managing premium payments, policy administration, and regulatory compliance. This allows investors to concentrate on portfolio management and broader investment decisions rather than the underlying operational processes.

Mitigating Risk and Ensuring Compliance

Life settlement investments are subject to inherent valuation risk, making regular medical record reviews an important part of the investment process. Access to current clinical information enables investors to identify material changes in an insured's health at an early stage and incorporate them into updated LE assessments. Without this information, valuations may rely too heavily on historical actuarial assumptions that reflect population averages rather than an individual's actual medical condition. Regular medical reviews reduce this risk by supplementing actuarial models with current, patient-specific clinical evidence.

Failing to carry out these reviews can result in inaccurate valuations, increased lapse risk, liquidity challenges, and portfolios that no longer reflect the underlying risk profile. It may also create regulatory and governance concerns. If an investor decides to sell a policy before maturity, the absence of recent medical records can significantly reduce its marketability, as prospective purchasers are unlikely to value the policy confidently without a reliable assessment of the insured's current LE. Regular reviews also demonstrate an appropriate level of due diligence, supporting the fund manager's fiduciary responsibilities and regulatory oversight obligations.

Conclusion

Regular reviews of medical records are a fundamental component of life settlement portfolio management. They support more accurate LE assessments, identify material changes in an insured's health, and help investors satisfy ongoing regulatory and compliance requirements. Effective monitoring depends on the coordinated efforts of several parties. Medical underwriters interpret the clinical information and assess its impact on LE, service providers obtain and manage the medical records and related documentation, and actuaries use the updated data to revalue policies and identify investments that are performing above or below expectations.

Incorporating regular medical reviews into the ongoing management of a life settlement portfolio enables investors to make better-informed decisions based on current clinical evidence rather than outdated assumptions. This reduces longevity risk, improves the accuracy of portfolio valuations, and supports more effective long-term investment management.