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Analysing the Potential of Life Settlements in Emerging Markets: A Systematic Review of Legal and Economic Considerations

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Abstract

With time, the law and economics of insurance have advanced from considering it solely as a security measure to recognising it as an asset class. Numerous companies now offer loans against these life insurance policies, accepting the 'property' nature of life insurance behind the veil (Doherty & Singer, 2003; Mancini & Murphy, 2012; Mazonas, Stallard & Graham, 2011). Recently the world witnessed sudden deaths at large scale during the COVID-19 pandemic. A study indicates that financial crisis is a major reason of acute stress and instability in adults' lives (Karim & Shetu, 2023; PK, TK & PK 2021) In such crisis situations, the secondary market assignment of life insurance policies could have been a boon for any person facing financial difficulty or not having a living family member/nominee. The market for life settlements flourished during HIV-AIDS crisis in the USA and has shown steady growth since then in various jurisdictions of the world. However, in India, the doors for secondary market trading were closed in 2015 through a statutory amendment to the Insurance Act, 1938 presently in force in India. Contemporary academia is divided on necessity of the requirement of insurable interest on the secondary market assignment of insurance policies. Other legal issues such as moral hazard, and ethics of trading on life are debatable as well.

The preliminary investigation revealed a scarcity of papers discussing these legal considerations around life settlements. However, among the top 10 countries in the global life insurance ranking, five are emerging markets including India having immense potential for life settlements market (Anon, 2021).

Consequently, the researcher conducted a scientific SLR using PRISMA Method, along with reviewing selected papers in full, focusing on the legal and related economic considerations, to produce valuable insights for the emerging market. This paper presents the sole effort to pursue SLR on legal issues and put them in a place with the aim to ignite the discussion on legal considerations of life settlements. Importantly, this paper considers India as an emerging market for reference and the USA as a benchmark for established market. This paper adopted a theoretical approach to fulfill the need for legal analysis complimented with secondary data analysis.

Keywords: Life Settlements, Secondary Market, Life Insurance, Longevity, Viatical Settlement, Systematic Risk, Trading of Life Insurance

Introduction and Background of Study

Numerous countries can be considered emerging markets due to their potential for economic growth and development. Examples encompass India, Brazil, Mexico, Indonesia, Turkey, South Africa, and many countries in Southeast Asia and Africa (Anon, 2022:5). These countries typically exhibit characteristics such as

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rapid industrialization, urbanization, a growing middle class, and increasing foreign investment (Mody, 2003). However, it is crucial to acknowledge that the designation of an emerging market can change over time as countries progress and their economic conditions improve.

Life settlements (also referred to as LS) represent a lucrative option for emerging markets due to their potential to unlock the value of life insurance policies, providing financial benefits to policyholders (Kreitner, 2006). Over a span of time, these markets get loaded with large aging population and a growing middle class seeking alternative investment opportunities (Lane, 2011). Recent research has revealed that Indian investors are attracted to investments which are more secured, where LS can be a good choice (Goud, 2021). Life settlements offer individuals the opportunity to monetize their policies before maturity, offering immediate cash benefits. This enables policyholders to address financial needs, such as healthcare expenses or retirement planning, while stimulating economic activity within the emerging market. A study has brought to light that addition of new benefits adds on the satisfaction of policyholders (Chattha, 2019). Thus such option will enhance consumer satisfaction. Research in the area of Life Settlements in emerging markets is crucial for academics as it offers valuable insights into the unique challenges and opportunities present in these markets. It helps in understanding the impact of legal, economic, and policy making considerations on life settlement transactions.

The present paper highlights the need for research into life settlements from legal and regulatory aspects. It may be put briefly that, in India, the amendment act of 2015 (Patwardhan, 2015) changed the stance of consumers of life insurance policies. The mere requirement of informing insurer about the assignment was changed into a mandatory requirement of taking acceptance from the insurer (Varottil, 2015). Where the insurer came in a position of imposing its interest on insured. Such a step exposes the bias of legislative intent (Varottil, 2015). Thus, in case of any financial difficulty, the only option available to the insured in India are to surrender the policy or let it lapse. The Legislature has imposed a prohibition on the transfer of Life Insurance Policies in the secondary market via Section 38(2) of the Insurance Act, 1938, as amended in 2015 (Satsangi, 2015). The current paper analyses the same. It also explores the history of life settlements in the USA, starting from the landmark case of Grigsby v. Russell in 1911 and the subsequent rise and fall of the viatical settlement market (Robert Tomilson & Matthew Klebanoff, 2013). The regulatory approaches adopted by different states in the USA to govern the life settlements market are discussed. Understanding the historical development and regulatory frameworks of life insurance and life settlements in these jurisdictions provides valuable insights into their impacts and challenges. The substantive part of the present research is theoretical due to its aim to examine the legal provisions.

Interestingly, scholars' opinion are divided on the requirement of 'Insurable Interest' regarding trading in life insurance policies among other issues (Kreitner 2006). Thus, the researcher inclined to do SLR using PRISMA method to scientifically establish the scarcity of research on the legal aspects of life settlements.

This paper is structured into four parts. In the first part of this research paper, researcher used PRISMA (Preferred Reporting Items for Systematic Reviews and Meta-Analysis) method to conduct a SLR and scientifically exposed the current scarcity of research in the area of life settlement legal regulation. Prior to the results of PRISMA method SLR, second section has been added which gives insights from the reviewed research papers on the regulatory saga of Life Settlements also known as trading in life insurance policy in India, and a brief note on the evolution and current status of Life Settlements market in USA. The third part comprises statistical insights derived from the analysis of IRDAI (Insurance Regulatory and Development Authority of India) reports on life insurance, revealing the increasing number of policy lapse in India, for which life settlements can be game changer from consumer welfare point of view. The Fourth part contains the results, discussion of PRISMA analysis, along with concluding remarks, limitations, and a note on scope for further research. The researcher aims to maintain the flow of the paper in the original chronology of research incidences to convey the experience of this project to the readers.

Review Method

PRISMA Method

Preferred Reporting Items for Systematic Reviews and Meta-Analysis (PRISMA) methodology is employed in this systematic review of literature available in the area of Life Settlements law and regulations. PRISMA is divided into three steps i.e. Identification, screening, and inclusion-exclusions.

In step one, researcher conducted an extensive review of literature available in the area of LS regulations. Initially, databases including Scopus, Hein Online, JSTOR, and Google Scholar were analysed. Following this analysis, the researcher proceeded with a systematic literature review (SLR) using the keywords i.e. "Life Settlements" AND "Legal" AND "Regulation" AND ("India" OR "USA") on Google Scholar and JSTOR. Researcher chose these platforms as they together contained majority of literature that is aligned with the research area.

In step two, screening was limited to articles dated from 2010 to 2023. The decision to adopt mentioned timeline was based on the market trends and legal developments that occurred within the given time frame in India. Fig. 1.4 clarifies that an upsurge in considered research area was shown in the time from 2013-2020. Thus 3-year circumference has been considered from the provided timeline.

In step three, articles were selected based on inclusion criteria, and remaining eliminated articles based on exclusion criteria. The articles that met eligibility criteria were included in the synthesis.

Research Question

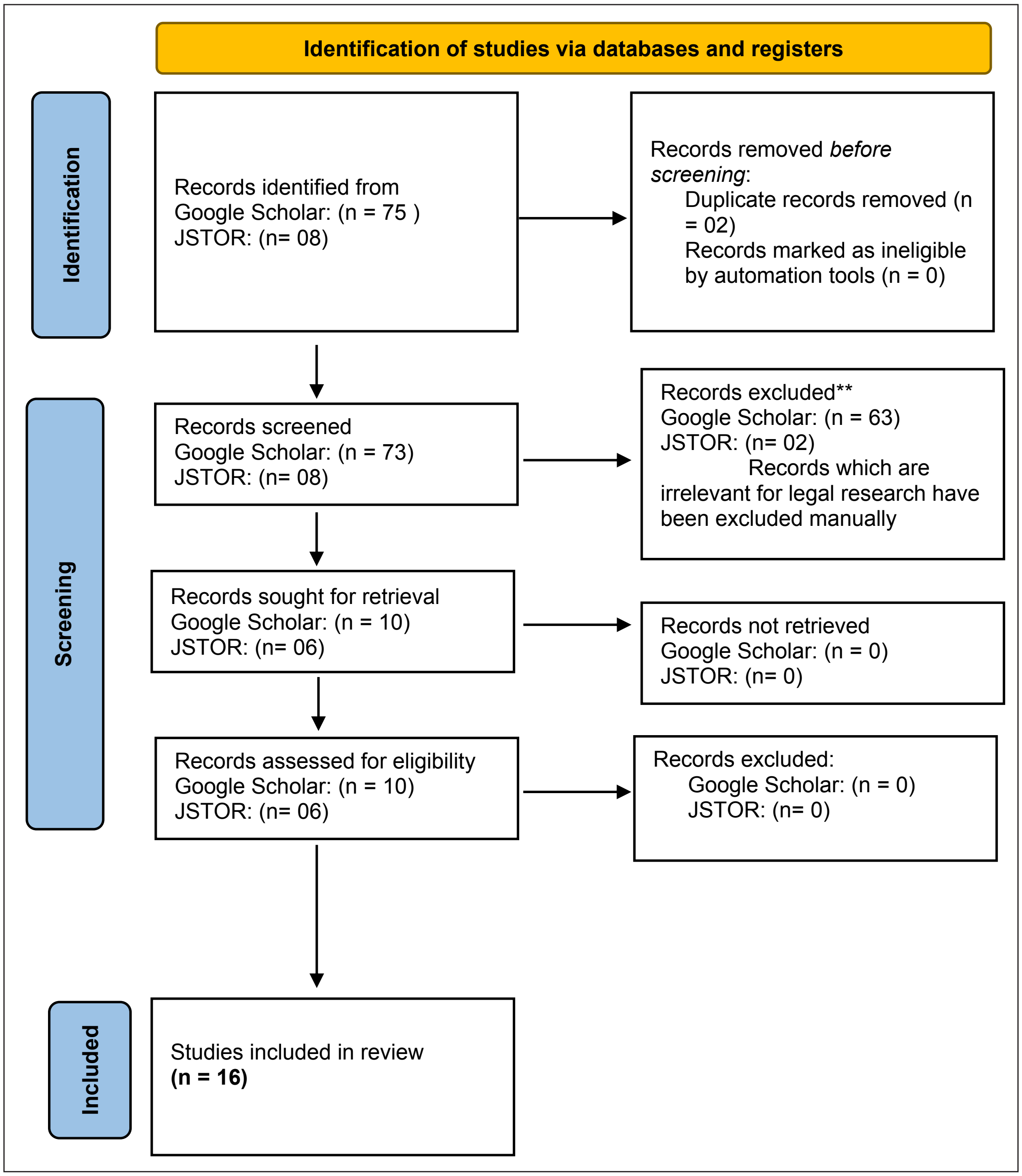
What is the extent and nature of the available literature on the legal aspects and regulatory frameworks of life settlements in India and the USA?

Inclusion and Exclusion Criteria

In this systematic literature review (SLR), we employed the following inclusion and exclusion criteria to identify relevant articles published between 2010 and 2023. We focused on articles that specifically discussed the scenario of life settlements in either India or the USA. Only articles written in the English language were considered, as language proficiency limitations could affect our ability to thoroughly analyse non-English publications. Current research investigates into the legal regulation of life settlements; thus, articles which discussed behavioural economics or empirical market analysis, among other considerations but legal regulation have been excluded. Moreover, researcher excluded the arguments and discussions around regulation of investment markets, considering life settlements as an investment portfolio. The goal was to narrow our scope and concentrate on legal issues surrounding life settlements in the selected jurisdictions. Here, India serves as a sample for emerging markets, whereas the USA serves as a sample for available literature and market data on Life Settlements.

Out of 75 articles taken from Google Scholar, 65 have been excluded after manually reading all the articles. Six out of eight articles have been considered from JSTOR.

Article Selection Process



*Consider, if feasible to do so, reporting the number of records identified from each database or register searched (rather than the total number across all databases/registers).

**If automation tools were used, indicate how many records were excluded by a human and how many were excluded by automation tools.

Data Extraction and Synthesis

The data extraction and synthesis process involved the compiling relevant information from the selected articles obtained through Google Scholar and JSTOR, following the PRISMA methodology. The data were organized in an Excel sheet with the following headings: Key, Item Type, Publication Year, Author, Title, Publication Title, ISBN, ISSN, DOI, Url, Abstract Note, Issue, Volume, Number of Volumes, and Language.

The data extraction involved systematically extracting key information from each article, including the publication year, author(s), title, publication title, and relevant identifiers such as ISBN, ISSN, and online access information. Additionally, the abstract note provided a concise summary of the article's content. The language of the article was also recorded to ensure consistency with the inclusion criteria.

Subsequently, the extracted data were synthesized to identify common themes and patterns across the selected articles. The synthesis process involved reviewing the titles, abstracts, and full texts of the articles to gain a comprehensive understanding of the legal aspects and regulatory frameworks of life settlements in India and the USA.

Themes such as insurable interest, longevity, life settlements, viatical settlements, policy lapsation, regulatory frameworks, market trends, and developments were identified from the extracted data. Relevant findings, insights, and arguments presented in the articles were integrated to develop a comprehensive overview of the current state of literature on the subject. This synthesis of data allows for a deeper understanding of the legal landscape and helps address the research question regarding the available literature on the legal aspects and regulatory frameworks of life settlements in India and the USA."

The main pillars of analysed literature are discussed herewith before results of PRISMA Analysis as follows:

Evolution of the Life Insurance Framework in India

The present life insurance framework has evolved over more than six decades in India. A major step was establishment of LIC (Myneni, 2019). The objective of LIC was to provide social security to different classes and to protect the interest of financially backward class in case of death of a family member (Saha, Dutta & Choudhury, 2019). With time, the perspective of looking at Life Insurance Policy changed. People started considering it as a tax-saving investment option (Nandy & Gupta, 2008). Which resulted in debates around consideration of life insurance policies as property and its alienation (Nandy & Gupta, 2008). According to Prof. Holland, a main characteristic of property is right to alienation (Mancini & Murphy, 2012). Thus, many jurists argue that the secondary market trading of life insurance must be allowed as it is a property of the insured (Nandy & Gupta, 2008; Swisher, 2015).

Pre-Amendment Legal Framework for Assignment of Policies in India

Assignment in this context refer to the transfer of beneficiary rights to another person who does not have insurable interest in the life of the insured (Richmond, 2012a). Several jurists raised questions around consideration of Life Insurance Policy as property. One fundamental characteristic of property is its 'transferability' (Richmond, 2012b). This transfer can take place through many different methods e.g. sale, mortgage, assignment, pledge, hypothecation, subrogation etc. (Anon, 1882). Prior to the amendment of 2015, the law was open regarding the assignment of life insurance policy to third person, with or without consideration (Varottil, 2015). In such cases, the assignee could pay the premium and enjoy the benefits of the policy (Nandy & Gupta, 2008; Patwardhan, 2015). Such assignment were allowed to be made through endorsement upon the policy or by a separate instrument. Such instrument was to be signed by the transferor or assignor or his/her agent along with the attestation of one witness. In India, the relevant provision of the Insurance act, 1938 before the 2015 amendment was as follows:

> "38. (2) The transfer or assignment shall be complete and effectual upon the execution of such endorsement or instrument duly attested but except where the transfer or assignment is in favour of the insurer, it shall not be operative as against an insurer and shall not confer upon the transferee or assignee, or his legal representative, and right to sue for the amount of such policy or the money secured thereby until a notice in writing of the transferor assignment and either the said endorsement or instrument itself or a copy thereof certified to be correct by both transferor and transferee or their duly authorized agents have been delivered to the insurer".
>
> Provided that where the insurer maintains one or more places of business in India, such notice shall be delivered only at the place in India mentioned in the policy for the purpose or at his principal place of business in India.

This means that prior to 2015, the transferor (insured/ policy holder) was free to assign their rights in the policy to any person irrespective of he/she (transferee) having insurable interest in the life of insured. The only duty imposed by this enactment was to inform the insurance company about such assignment.

Legal Battle and Amendment Closing Doors for Life Settlements

An important legal matter arose in 2003, where Insurance Policy Plus Services (IIPS) sued Life insurance corporation (LIC). IPPS was involved in the business of assignment of life insurance policies issued by LIC. This company purchased policies from actual policyholders who were unable to pay the premium, offering a better price than surrender value. IPPS then assigned such purchased policies to third party who is interested in buying the same. Such a buyer was entitled to reap the benefits (actual death claim amount) of the policy on maturity (Anon, 2007; Nandy & Gupta, 2008; Varottil, 2015). In October 2003, LIC issued a circular directing its branches to decline assignment applications from companies trading in policies (Anon, 2007). IPPS went to Bombay High Court, seeking a declaration that the LIC policies are tradable and nullifying the circular of LIC. They contended that the mentioned action of LIC is in contravention of Section 38 of Insurance Act, 1938 and Article 14 and 19(1)(g) of the Indian Constitution (Anon, 2007). The Bombay High Court extensively discussed the issue and examined the nature of life insurance from an Indian perspective along with scrutinizing the legal validity of the relevant laws (Anon 2007; Nandy & Gupta, 2008; Varottil, 2015). In its verdict, High Court decided in the favour of IPPS (Anon, 2007). Later on this matter was taken to Hon'ble Supreme Court by the LIC (Anon, 2015). While this matter was under consideration, an amendment was brought in the Insurance Act, 1938, Section 38, which mysteriously closed the doors for IPPS and other companies from trading in policies. The insurance act, amendment act of 2015, relevant provision is as follows:

> "38. (2) An insurer may, accept the transfer or assignment, or decline to act upon any endorsement made under sub-section (1), where it has sufficient reason to believe that such transfer or assignment
>
> is not bona fide or is
>
> not in the interest of the policy-holder or
>
> not in public interest or
>
> is for the purpose of trading of insurance policy".

This amendment provided express powers to the insurers to decline the transfer/assignment if such transfer is for the purpose of subsequent transfer of life insurance policy to a person not having any insurable interest in the life of insured (Murthy & Sharma n.d.:13-17).

Thus, the doors for emergence of life settlements market were closed in India by the central legislature in 2015.

This amendment gave wide discretionary powers to the insurance companies. It is argued by many jurists that Life Insurance Corporation, being a government entity and the largest player in the life insurance market in India, influenced the enactment of this amendment. This amendment exposed the overreach of the legislature in market activity. This amendment is arguable as the practice of trading in life insurance was advocated by one High Court and the Apex Court of India as well.

The insights in support and opposition, churned out from the analysis of literature on such a statutory ban on life settlements in an emerging market in India, are mentioned in the results section of PRISMA.

Life Settlements in USA

In 1911, the landmark case of Grigsby v. Russell (Robert Tomilson & Matthew Klebanoff, 2013) established the foundation for secondary sales of life insurance policies by recognizing them as private property. However, it wasn't until the HIV/AIDS epidemic in the late 1980s that documentation of such transactions became more prevalent. During this time, HIV/AIDS patients, primarily unmarried younger males with life insurance policies through their employers, began selling their policies in viatical settlements (Kreitner, 2006). These individuals sought lump-sum payments to cover expensive medical treatments or improve their financial situation while still alive. Buyers of these policies anticipated receiving the death benefits soon, considering the relatively short projected lifespans of diagnosed patients (Swisher, 2015).

The viatical settlement market thrived for a while, but it eventually collapsed due to unforeseen factors. Medical advancements in HIV/AIDS treatments progressed more rapidly than anticipated, resulting in longer lifespans for patients (Lazarus, 2010). This progress led to negative investment returns for buyers of viatical settlements, causing the market to decline in the mid-1990s (Blake & Harrison, 2009). As a result, the availability of policies for viatical settlements, across all disease types, never fully recovered.

Nonetheless, the concept of trading life insurance policies resurfaced in 1999 with the founding of entities like Coventry First LLC by Alan Buerger (Loshin, 2007). Based in Fort Washington, Pennsylvania, Coventry pioneered non-viatical life insurance settlements and is considered the creator of the modern life settlement market. This market primarily focuses on individuals who either no longer have a need for their insurance policies, such as when their children are financially independent, or those who urgently require the cash value built up in their policies, such as for long-term or end-of-life care. Gradually, the promulgation of federal laws and more than 60 pieces of life settlement legislation advanced the standard drafting and interpretation of life settlements contracts (Anifalaje, 2021; Swisher, 2015). These steps led to increasingly regulated market conditions for life settlements.

Regulation approaches differ among states, with two primary models being followed. The National Council of Insurance Legislators (NCOIL) model legislation explicitly defines Stranger-Originated Life Insurance (STOLI) as a fraudulent practice subject to civil and criminal penalties (Richmond, 2012b). The focus is on identifying whether a stranger was present at policy inception and whether future settlement of the policy was anticipated or promoted at the time of purchase. This legislation includes restrictions on premium financing and mandates increased disclosures to consumers, settlement providers, and insurers. It also permits insurers to inquire specifically about STOLI and financing arrangements.

Conversely, the National Association of Insurance Commissioners (NAIC) model legislation aims to protect consumers in life settlements, particularly in direct sales of policies for investment purpose (Januario & Naik, 2013). It imposes a ban on settlements within five years of policy inception, with exceptions for terminally or chronically ill policyholders. The legislation requires substantial disclosures to consumers and grants the commissioner the authority to regulate settlement providers' reporting (Swisher, 2015).

Some states have adopted a hybrid approach, incorporating elements from both the NCOIL and NAIC models, while others have updated their older viatical settlement laws to include provisions against violations of insurable interest statutes. For instance, Minnesota once implemented comprehensive legislation that includes a four-year ban on settlements and prohibits the purchase of policies with signs of STOLI during that period (Settlements, 2020). Regulation of life settlements in the USA involves state-level oversight, licensing, and disclosure requirements. Consumer protection measures are in place, distinguishing viatical and life settlements. State insurance departments and the SEC play key roles (Ellis, 2016).

The Present literature review revealed that life settlements in the USA are successful due to a robust regulatory framework, a growing aging population, increased awareness, financial needs being addressed, competitive offers, and a well-established professional infrastructure (Januario & Naik, 2013).

It's important to note that these regulations primarily focus on preventing fraudulent practices and protecting consumers in the life settlements market, ensuring transparency and fairness in these transactions.

42 States have regulated Life Settlements in USA (Settlements 2020).

Alaska	Kentucky	North Dakota
Arizona	Louisiana	Ohio
Arkansas	Maine	Oklahoma
California	Maryland	Oregon
Colorado	Massachusetts	Pennsylvania
Connecticut	Minnesota	Rhode Island
Delaware	Mississippi	Tennessee
Florida	Montana	Texas
Georgia	Nebraska	Utah
Idaho	Nevada	Vermont
Illinois	New Hampshire	Virginia
Indiana	New Jersey	Washington
Iowa	New York	West Virginia
Kansas	North Carolina	Wisconsin

Why Emerging Markets Like India Needs Life Settlements

As per the analysis of data extracted from IRDAI, the life insurance policy lapse ratio in India for different companies was between 5% to 22% in 2019-20 (See Fig. 1.1). On average, 8% of the total Life Insurance Policies lapsed in the given year. The researcher analyzed the data related to policy lapse from 2013-2020 and found that large number of sums assured fails due to policy lapse (Priya, 2018). This lapse may occur due to miss-selling, inability to pay or unavailability of any other option. Figures 1.2 and 1.3 reveal that though there was a slight decrease in the lapse ratio, total number of policies lapsed increased drastically in last three years i.e. 2017-2020. Such figures compelled the researcher to dig deeper into the prospect of life settlements as an option in case of financial difficulty.

On preliminary investigation, the researcher found that there are few options available to the policyholder in case of incapacity to continue i.e. Surrender the policy where the policyholder will get 30-60% of the premium paid (Dubey, 2021). Moreover, the loan amount against such policy is limited to 80-90% of Surrender Value. On the other hand, trading in life insurance policy pays as high as 70% of face value (Boyd, 2020). This finding revealed the gap between the unmatchable gains that life settlements can give from standpoint of insured/policyholder.

The primary literature survey revealed that academia is divided on the issue of trading in life insurance. The papers that the researcher surveyed seem to be biased either tactical or blatantly.

Result of PRISMA Method Review

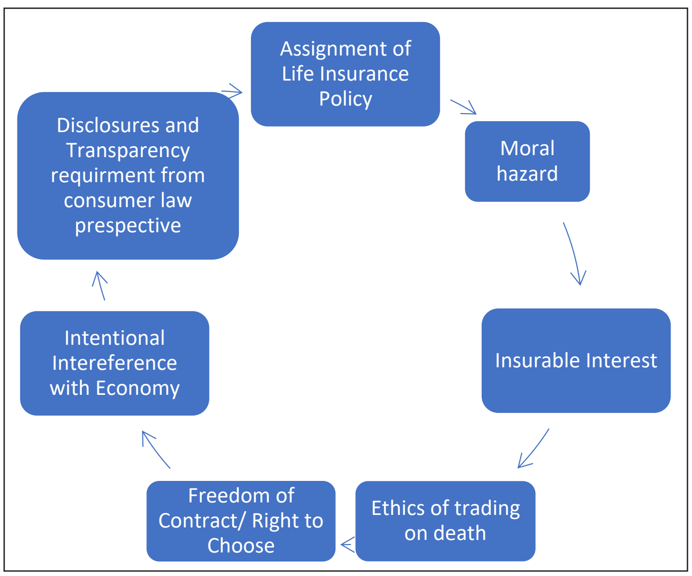
The results are primarily focused on highlighting relevent points for the emerging markets. Systematic Flow for Result Section of PRISMA SLR Article:

- The top five keywords based on frequency were

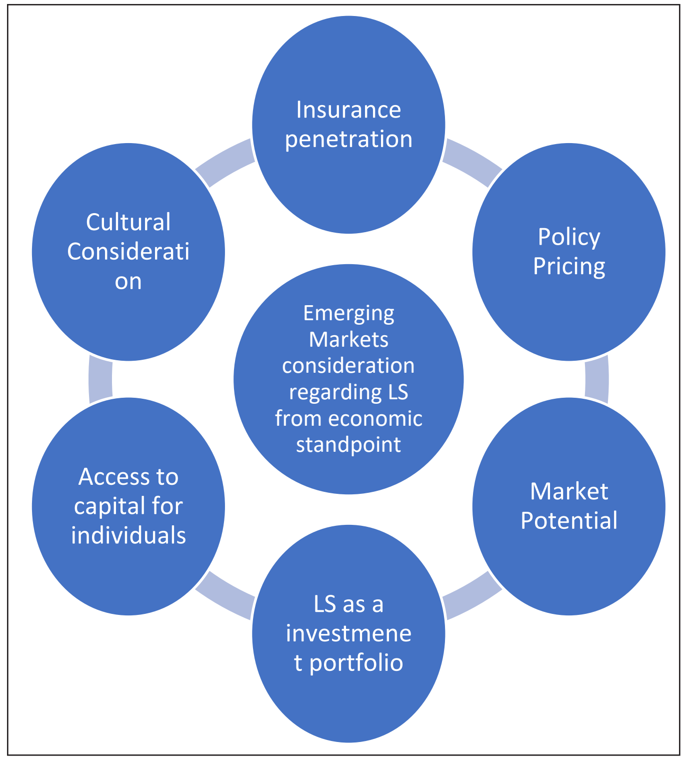
Life Settlements	Insurable Interest	Longevity	Life Insurance	Systematic Risk

  PRISMA Analysis revealed that the papers discussing longevity risks were helpful in understanding life settlements even when the frequency of direct terms like life settlements was negligible in such papers. The same exposed the gap between two similar area which can potentially complement each other.
- Permitting the trading of life insurance policy can give rise to ‘Moral Hazard’.
- The secondary market for life settlements in USA has experienced significant growth and is projected to reach $180 billion by 2023, indicating its immense potential for expansion with regulatory reform and uniformity (Anifalaje, 2021).
- A legal barrier has been created by the amendment of 2015 which gives indefinite power to the insurer in matter of accepting or rejecting the transfer of life insurance policy (Nandy & Gupta, 2008; Varottil, 2015).
- For emerging markets, a workable solution between the compulsory requirement of insurable interest and no insurable interest can be a prohibition of certain years on transferring the policy in secondary market (Swisher, 2015). This will help the emerging economies to tackle possible STOLI transactions.
- Considering that most of buyers of life settlements are older age citizens, it is inevitable to make stringent regulations to protect vulnerable individuals targeted in fraudulent transactions.
- Judicial precedents and legislative interference have widely impacted the market of life settlements in both jurisdictions.
- The growth and standardization of the longevity market could create a more conducive environment for the expansion of the life settlements industry, attracting investors interested in alternative assets.

- The value of insurance contracts alone does not adequately explain policyholder behavior. Frictions, market incompleteness, cognitive and behavioral biases influence policyholders' decisions. Understanding policyholder behavior is crucial for insurer operations, pricing, contract design, and analyzing resulting equilibria to uncover drivers of financial innovation (Boyd, 2020; Sandel, 2013).
- Within the academic discourse, divergent opinions among scholars emerge regarding the necessity of an "Insurable Interest" requirement in the realm of life insurance policy trading. These approaches are highly subjective and difficult to categorize.
- Legal status of nominees and assignees, the effect of assignment on nomination to a person not having insurable interest is an important consideration that needs to be seen from a single lens across the countries in current cosmopolitan times.
- Literature review revealed following major policy making consideration that need to be checked by emerging market for regulating life settlements.



- The argument for market rights and freedom of contract in life settlements is weakened by the conditions under which these settlements take place, ethical objections raised, and the potential for negative impacts on policyholders' welfare.
- Following are main considerations for emerging market from economic standpoint.



Discussion

The results of the PRISMA systematic literature review shed light on various aspects of the life settlements industry and its implications. The discussion will focus on key findings and their implications, as well as identify gaps in the existing research to provide suggestion to the emerging markets.

Firstly, based on the literature review, certain arguments in favour and against the requirement of insurable interest have been categorized.

- Arguments favouring insurable interest:
    - *Protection of Insurance Principles*: Insurable interest ensures that life insurance remains a risk management tool rather than a speculative investment unrelated to the insured's well-being.
    - *Prevention of Moral Hazard*: Requirement of insurable interest prevents individuals from taking out excessive life insurance policies solely for the purpose of selling them in the secondary market, which could encourage fraud and abuse.

- *Consistent with Primary Intent of Life Insurance*: Insurable interest safeguards the original purpose of the life insurance policy, which is typically intended to provide financial security for loved ones or cover specific obligations.
- *Preserving Insurance Industry*: The requirement helps maintain the stability and viability of the insurance industry by preventing the commodification of life insurance and protecting insurers' ability to assess and manage risks.

- Arguments against the insurable interest requirement include:
  - *Personal Property Rights:* Freedom to transfer and assign property rights, including life insurance policies, should not be restricted by requiring an insurable interest.
  - *Economic Benefits:* Allowing unrestricted transferability can create a market for life insurance policies, providing policyholders with the opportunity to realize financial value from their policies during their lifetimes.
  - *Encouraging Market Competition*: A more open market can lead to increased competition among life insurance providers and potentially lower premiums for consumers (Chattha, 2019; Saha et al., 2019).
- Inception of new asset Class-Life settlements can emerge as a stable, lucrative and comparatively secure asset class, which will add to the advancement of any emerging economy.
- It is expedient to mention that the policyholder may intend to abuse such a facility of trading the policy. It is necessary to remove the possible biases on any one side. Thus, the research analysed the question of 'Moral Hazard' in Trading of life insurance. Moral hazard is a situation where the policy holder tends to take more risk knowing that he/she will not have to bear the expenses. Thus, it is vital to regulate the issues related to moral hazard if trading in life insurance policy is allowed in emerging markets like India.
- The review also highlights the challenges posed by fraudulent practices in the life settlements industry. The rising popularity of life settlement transactions, coupled with inadequate regulations, creates a fertile ground for fraudulent behaviour (Lazarus, 2010). The most common forms of settlement fraud identified in the study were fraudulent conduct by intermediaries and violations of insurable interest laws (e.g., STOLI). This emphasizes the need for stricter regulations, ethical standards, and improved consumer protection measures.
- Moreover, the review underscores the importance of protecting vulnerable individuals, such as seniors or those with terminal illnesses, who are often targeted in fraudulent settlement transactions (Trinkaus & Giacalone, 2002). State insurance departments have responded by enacting legislation to regulate settlement fraud and impose penalties on perpetrators. It is expedient to protect such interests of policyholders in the early years of the market for stable growth.
- Insurable interest laws serve the dual purpose of discouraging gambling practices and preventing the potential incentive for murder (Quinn, 2008; Sandel, 2013). The requirement of insurable interest distinguishes legitimate life settlements from invalid wagering arrangements. Thus, the regulation for life settlements needs to be curated carefully to make a fine line between prohibition on primary selling of life insurance without insurable interest and secondary market transfer permission after keeping policy for certain years. Such curation is key for establishment of life settlements market in any emerging economy.
- Furthermore, the review points to the need for a dynamic regulatory structure to proactively identify, assess, and manage potential sources of systemic risk in the insurance industry. The traditional state-based insurance regulatory regime in the United States may not be adequately equipped to address systemic risks posed by insurance-focused financial firms.
- Developing countries often face unique challenges in their insurance markets, including limited access to financial services and inadequate social security systems. In such contexts, life settlements could offer an alternative solution for individuals seeking to monetize their life insurance policies. By unlocking the value of their policies through settlements, individuals may gain access to much-needed funds for

healthcare expenses, retirement, or other financial needs.

- However, it is important to recognize that the development of a robust life settlements market in developing countries requires careful consideration of several factors. These include establishing appropriate regulatory frameworks, promoting transparency and consumer protection, and fostering investor confidence. Additionally, cultural factors, social norms, and the level of insurance literacy within these countries may influence the acceptance and adoption of life settlements as a viable financial option.
- While there is limited research specifically focused on the prospects of life settlements in developing countries, some studies have indicated growing interest and potential for expansion. These findings underscore the need for further exploration and empirical studies to better understand the feasibility, impact, and potential challenges associated with introducing life settlements in these regions.
- Additionally, the successful implementation of life settlements in developing countries could have broader socio-economic implications. It may contribute to financial inclusion by providing individuals with access to previously untapped sources of liquidity. Moreover, the development of a well-regulated life settlements market could stimulate economic growth, attract investment, and create employment opportunities within the insurance and financial sectors.
- To fully assess the prospects of life settlements in developing countries, it is crucial to consider the specific socio-economic and regulatory contexts of each country. Collaborative efforts involving policymakers, insurance regulators, industry stakeholders, and researchers are needed to navigate the unique challenges and explore the potential benefits that life settlements can offer in these regions.

The results of the PRISMA systematic literature review prompts us to consider the potential prospects of the life settlements market in developing countries. While the majority of research and industry focus has been on developed nations, there is an opportunity for the expansion of life settlements in emerging economies. This paper revealed such gaps in the existing research that warrant further investigation.

Limitations

Limited to analysis of regulatory environment in India and USA.

- In terms of PRISMA, it is limited to the data based on the given path of keywords i.e. Life Settlements" AND "Legal" AND "Regulation" AND ("India" OR "USA" for search.
- Limited to analysis of only the articles that deals with law related to life settlements.
- Limited to theoretical analysis of concepts with analysis of secondary data.
- Limited to research articles from 2010-2023 for PRISMA. However used other articles from any timeline as a supplemental material.
- Limited to exposing the current legal and regulatory issues; and does not provide the solutions for the same.
- It does not deal with the conceptual building blocks of every legal consideration but exposes the existence of the same.

Conclusion

In conclusion, it may be said that the life insurance policy is only a death insurance policy in absence of an option for life settlements.

The PRISMA method analysis revealed that there are certain legal consideration like difference of opinion and practice on requirement of insurable interest on secondary market assignment of life insurance, gap between purely economic paper and legal scholarship creates a void of research regarding life settlements regulations. However, there are certain real threats which will sneak in with the market of life settlements e.g., Moral hazard which needs to be tackled. Majority of consumers of life settlements are elderly and needy people which makes a consumer prone to exploitation. These are major reasons behind disinterest of emerging markets in regulating life settlements. Researcher is of the opinion that the many countries like India are taking safer side by not going at the juncture of complex economics and legal regulation on the price of economic advancement.

In conclusion, the results of the PRISMA systematic literature review provide valuable insights into the life settlements industry, including its growth, challenges, fraudulent practices, and regulatory landscape. The findings underscore the need for stricter regulations, ethical standards, and improved consumer protection measures to ensure the establishment and growth of regulated life settlements market in emerging economies.

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Annexures

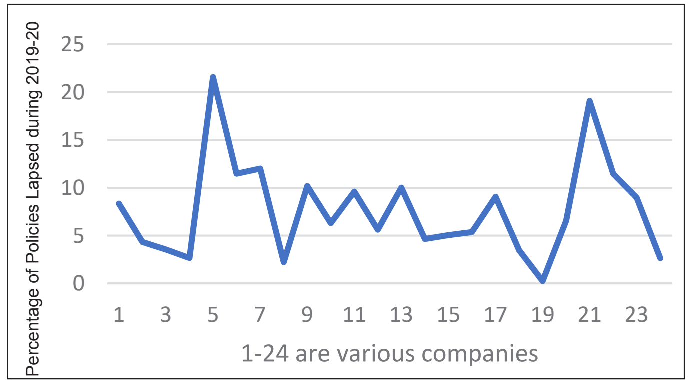


Fig. 1.1: Lapse Ratio (Based on Number of Policies) (In Percent) 2019-20

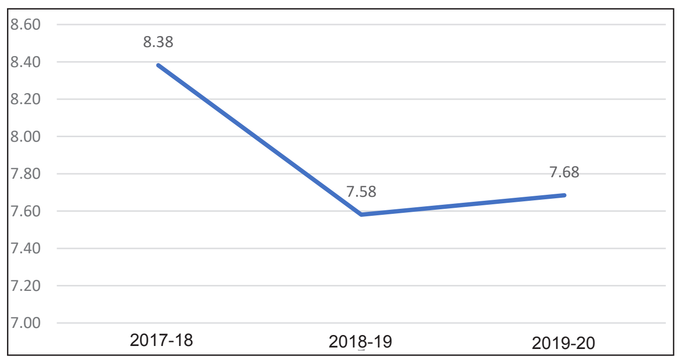


Fig 1.2: Policy Lapse Ratio (2017-20)

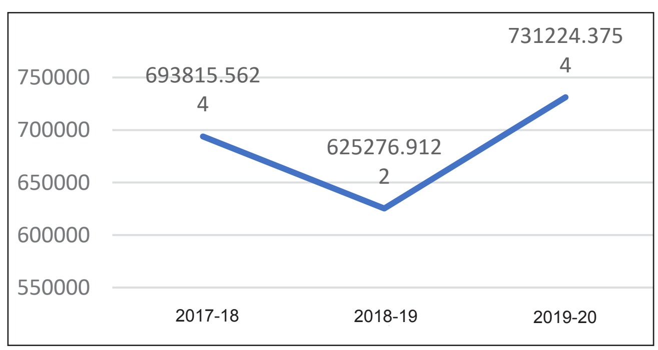
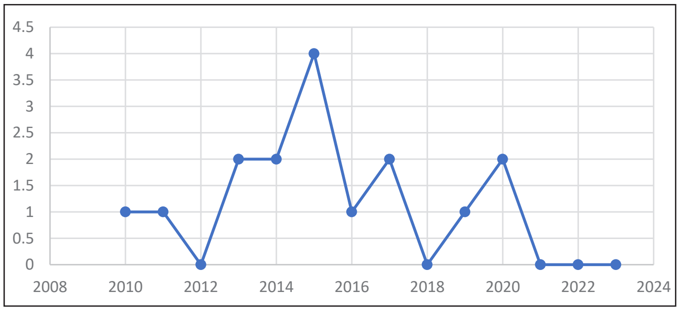


Fig. 1.3: Number of Policies Lapsed in '000s From 2017-2020



Note: This chart is exclusively indicating result based on keywords path used in PRISMA. Please note that this research utilized various recent article from 2020-23 in supplement

Fig. 1.4: Year and No. of Relevent Papers Considered for PRISMA SLR (2010-2023)

YEAR	*No of Publication*
2010	1
2011	1
2012	0
2013	2
2014	2
2015	4
2016	1
2017	2
2018	0
2019	1
2020	2
2021	0
2022	0
2023	0