A REINSURER’S PERSPECTIVE ON BUY-INS, BUY-OUTS AND SWAPS

2015 ACA Members’ Conference

6th February 2015

BRAVE IN A WORLD OF RISK

PACIFIC LIFE RE

A REINSURER'S PERSPECTIVE ON BUY-INS, BUY-OUTS AND SWAPS

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- Pacific Life Re
- Current longevity market
- Scheme information
- Transaction simplicity

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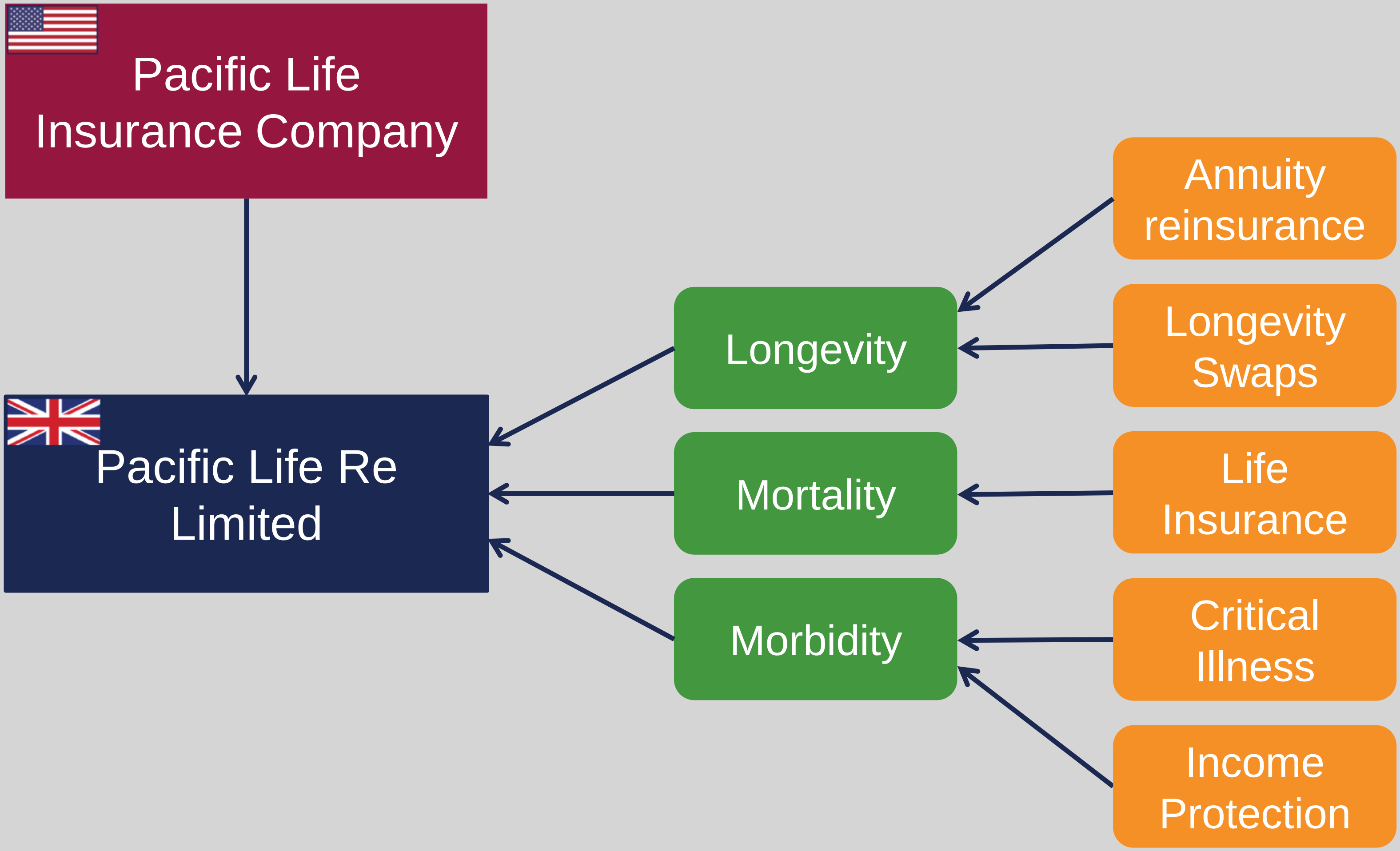
BACKGROUND



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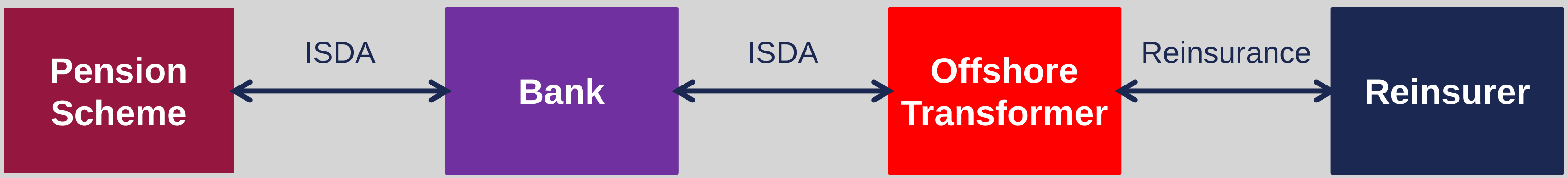
TYPICAL TRANSACTION STRUCTURES

DERIVATIVE STRUCTURE



INSURANCE STRUCTURE

COMPONENTS OF PRICING

Longevity base mortality

- Combination of credible scheme experience information (if available) with internal best estimate mortality tables;
- Rating factors – benefit amount, postcode factors, occupation & softer information

Longevity improvements

- Best estimate assumptions from internal model

Dependant assumptions

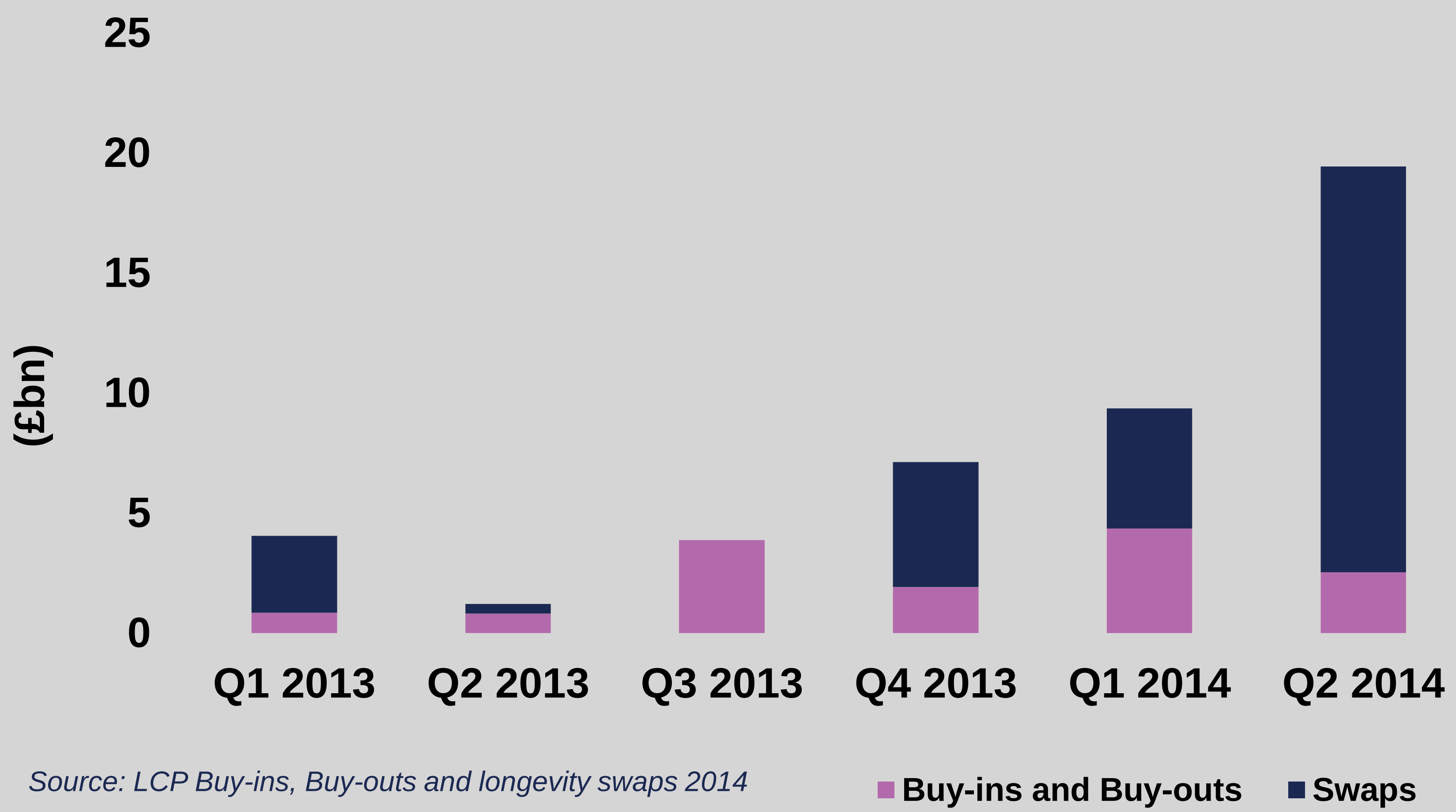
- Preference for actual scheme information from existence exercise (internal best estimate assumptions if not available)

Risk fee

- Risk capital and expenses

CURRENT LONGEVITY MARKET

CURRENT LONGEVITY MARKET
QUARTERLY VOLUMES



Source: LCP Buy-ins, Buy-outs and longevity swaps 2014

CURRENT LONGEVITY MARKET
MARKET SEGMENTATION/OPTIONS

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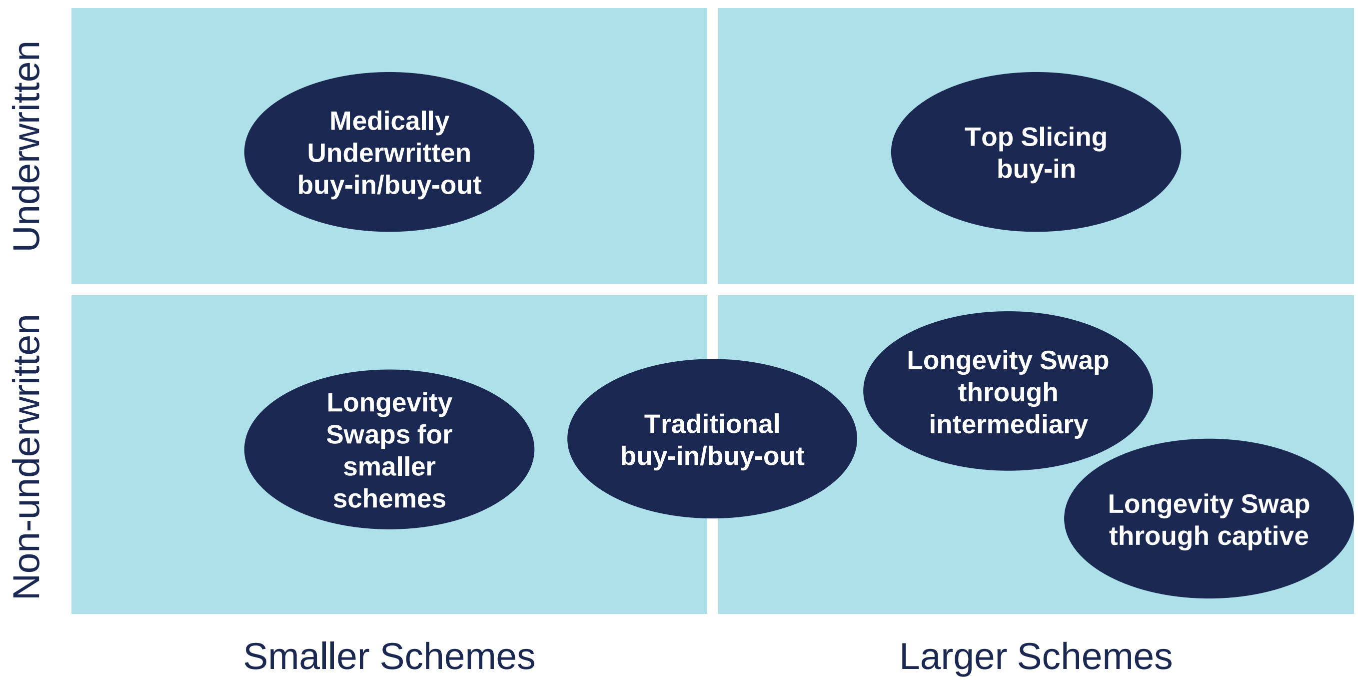

Typically underpinned by reinsurance
(either back-to-back or afterwards)

CURRENT LONGEVITY MARKET
REINSURER PRIORITIES

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1) Assessment of longevity risk prime importance for reinsurer

- Assessment of demographic and inflation risk smaller considerations

2) Growing demand from market for reinsurance support across different products, sizes of opportunities and complexities

Key transaction considerations

- Clear process and realistic timings
- Defined targets and goals can be very helpful
- Robust and accurate data
- Detailed information including softer items

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Medical underwriting

- Approach and validity period of health information collected
- Potential anti-selective risk of schemes going other routes?

Top slicing

- Why top slicing route has been chosen
- How top slice has been chosen
- What health information the Scheme is aware of?

Small schemes swaps

- Approach to pricing given concentration of risk but limited experience data
- Simplicity of transaction negotiations and execution given size

SCHEME INFORMATION

SCHEME INFORMATION
REINSURER WISHLIST (1)

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- **Cleansed scheme data**
  – Full Scheme inforce and experience data including salary, service, occupation , any section code held and a breakdown of amounts at death into benefit tranches.
- **Full scheme history**
  – Full benefit history, M&A history, bulk transfers in or out, benefit changes to support corporate activity.
- **Complete details of any prior de-risking activity**
  – How the offer was presented, extent of independent advice offered, who was offered a change in benefits, who accepted a change in benefits, what the benefits were before and after the change.

SCHEME INFORMATION
REINSURER WISHLIST (2)

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- **Spousal Information**
  - Recent marital existence exercise/search, trustee policies on discretion in relation to financial dependants (if applicable) and any restriction on young spouses.
- **Benefit Model *(Longevity Swaps)***
  - Benefit model producing cashflows on Trustee Technical Provisions or dummy basis, set-up in a way to allow pricing to be presented back by the reinsurer using the model.
- **Pre-answered Q&As *(Small Schemes)***
  - Pre-answered responses provided to more standard questions.

TRANSACTION SIMPLICITY

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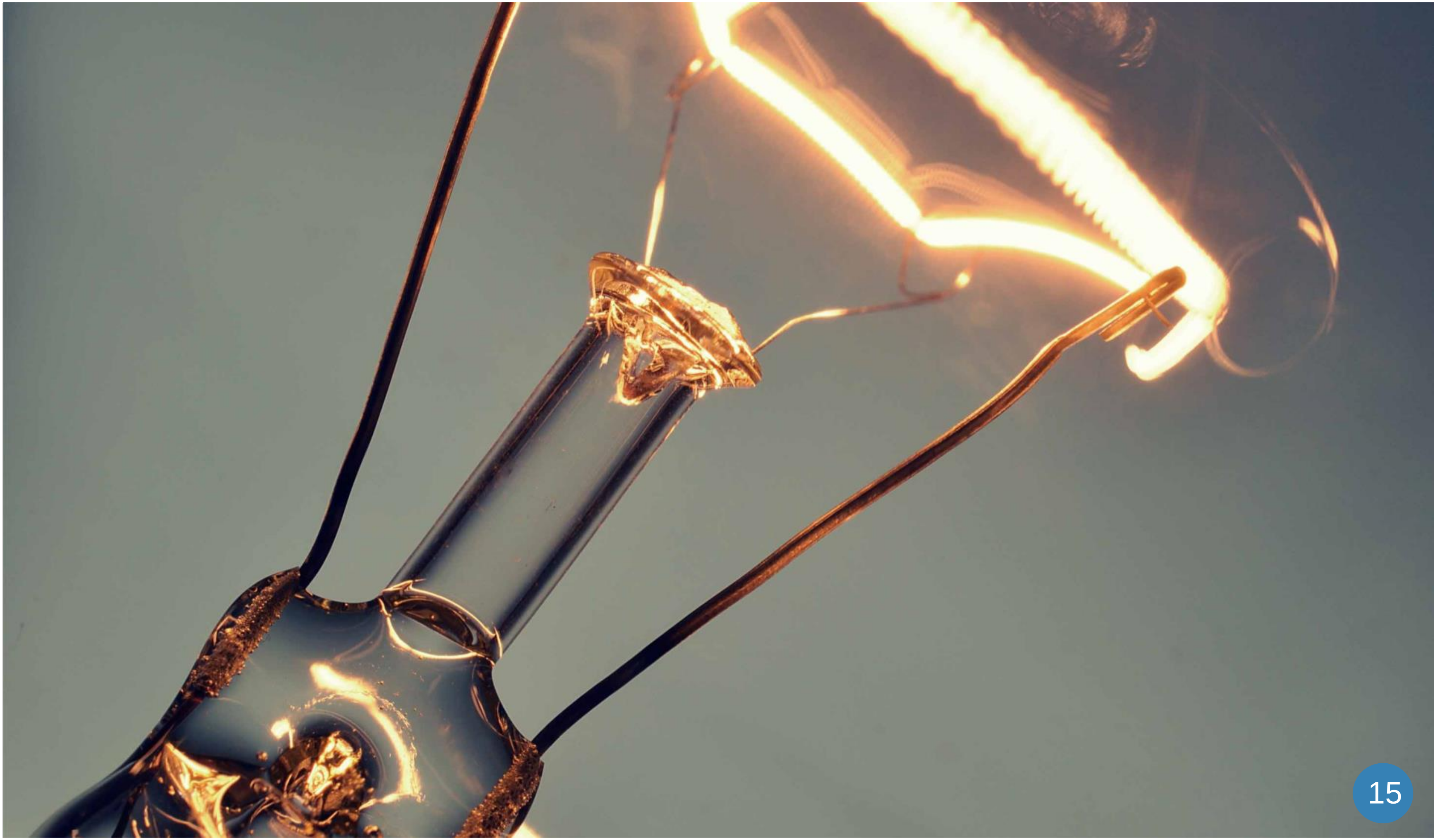

TRANSACTION SIMPLICITY
COMPLICATED OR SIMPLE?

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COMPLICATED

- Complex benefit structure with lots of tranches and indexation
- Complex data correction process involving most data fields
- Complex collateral formula with small thresholds and daily calculation
- Long and detailed documentation
- Complex administration

SIMPLE

- Simple benefit structure with simplified benefits and indexation
- Simple data correction process affecting only DOB and Gender
- Simple collateral formula with large thresholds and periodic calculation
- Light touch short execution documents
- Simpler administration

A REINSURER'S PERSPECTIVE ON BUY-INS, BUY-OUTS AND SWAP

CONCLUSIONS

- **Growing market**
  - Maturing market with very healthy levels of competition
  - Increasing options for de-risking
- **Reinsurer's primary focus is on longevity risk**
  - Detailed, robust and accurate information and data can help achieve best pricing
- **Clear process and targets can help achieve desired results quickly**
- **Consider complexity of solution required**
  - What is the aim of the transaction required?

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