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A short introduction to longevity swaps and Q&A session

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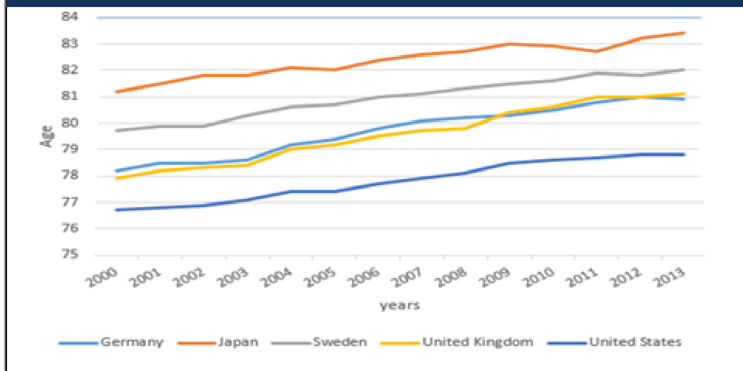
Agenda

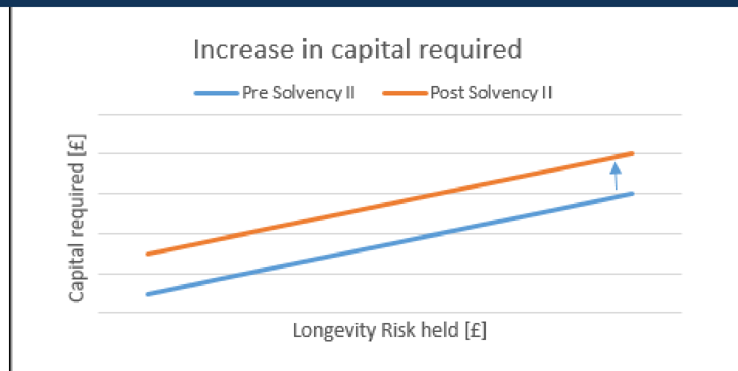
- The “Problem” – Increasing Longevity
- What is a Longevity Swap?
- UK Longevity De-risking Solutions
- UK Longevity Swap Market
- Sources of longevity business
- Recent longevity market activity
- Developments in the Longevity Market
- Executing deals
- How can I make transacting more likely?
- Questions and Discussion

The “Problem” – Increasing Longevity

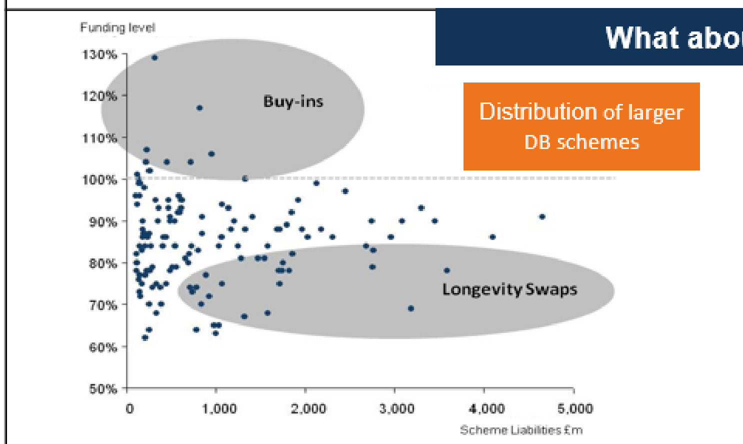
Increasing longevity reserves

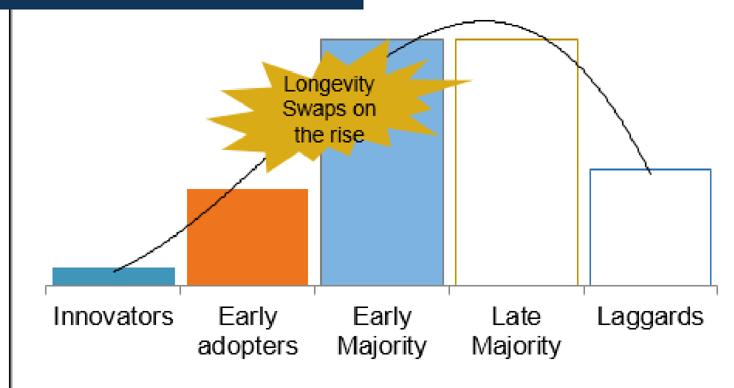


Solvency II



What about the future?





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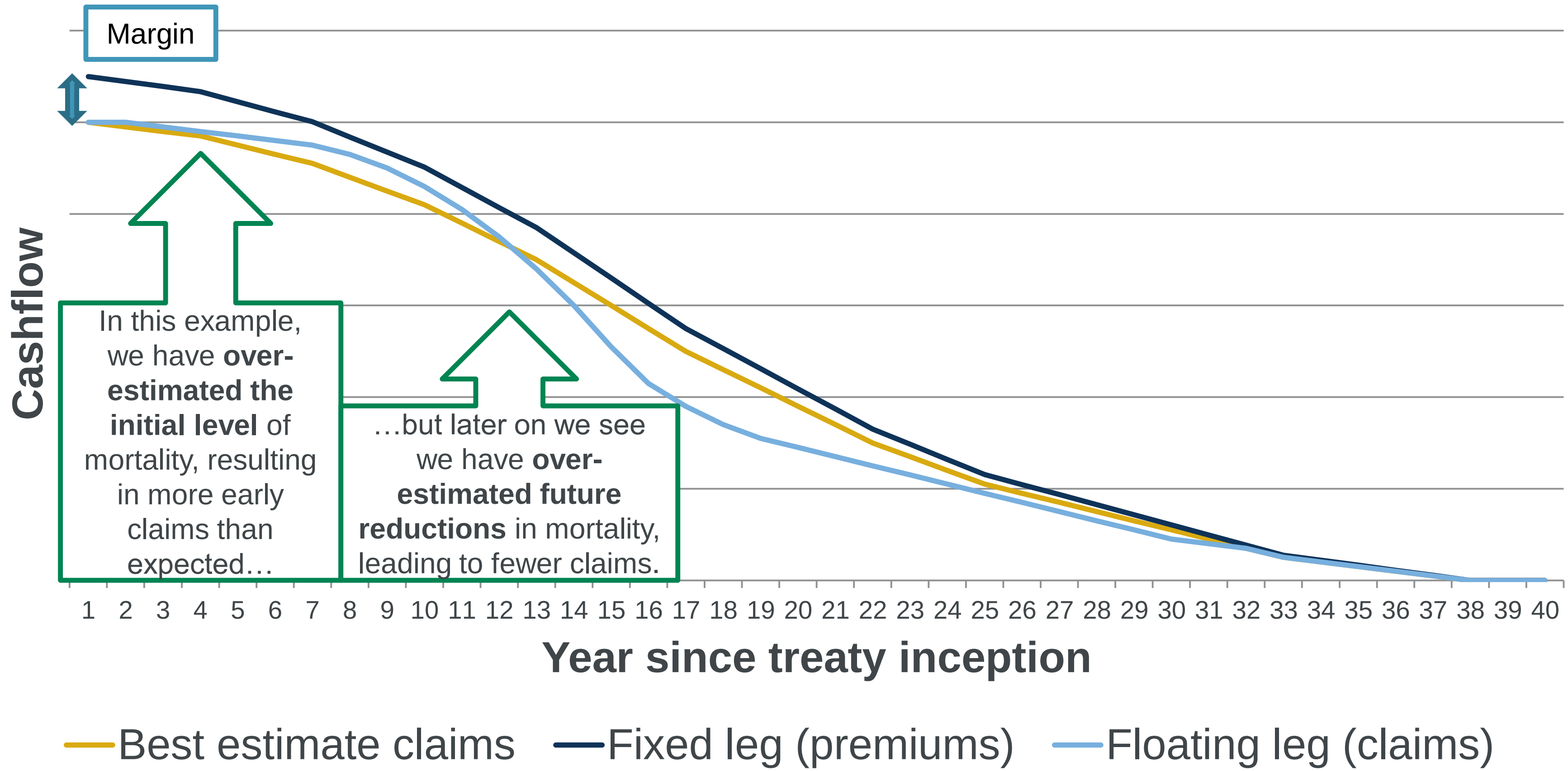
What is a Longevity Swap?
- Exchange of Cashflows



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UK Longevity De-risking Solutions

De-risking Solutions	Matching principle	Changing Benefits	Transfer Longevity Risk	Transfer Asset Risk	Transfer Liability for Pensioners
Liability driven investments	✓	✗	✗	✗	✗
Liability management	✗	✓	✗	✗	✗
Insured Solutions					
Longevity transactions	✓	✗	✓	✗	✗
Buy-in	✓	✗	✓	✓	✗
Buy-out	✓	✗	✓	✓	✓

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The UK longevity market

Insurance Intermediaries

- Legal & General
- Pension Insurance Corporation
- partnership
- justretirement
- Rothesay life
- Aviva
- Zurich
- Prudential

Employee Benefit Consultants

- Aon Hewitt
- Mercer
- Willis Towers Watson
- Hymans Robertson
- LCP Insight Clarity Advice

Reinsurers

- RGA
- SCOR
- Swiss Re
- Prudential
- Pacific Life
- hannover re
- challenger
- Munich RE

Other Participants

- Pension Schemes
- Sponsors
- Lawyers
- Regulators
- Custodians

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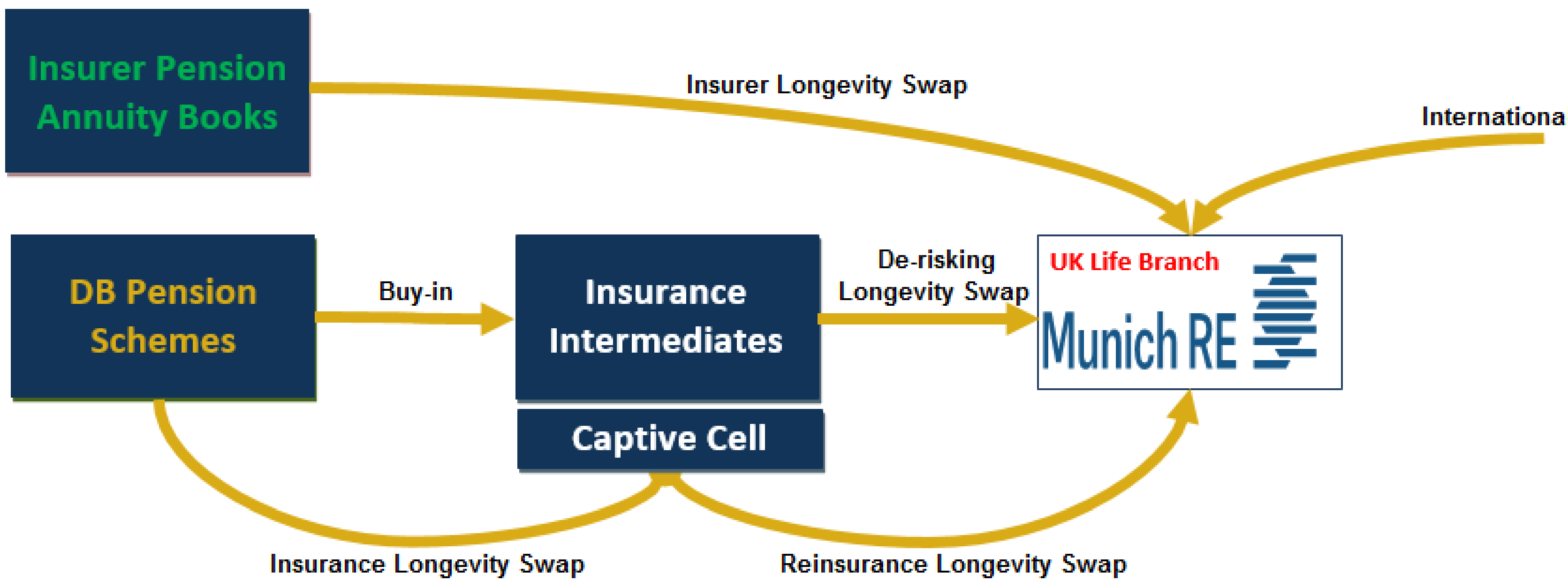
Sources of longevity business



Developments in the Longevity Market

- Enhanced Annuities
- Index-based swaps
- Deferred Pension Scheme Members
- Tail Risk
- Small schemes

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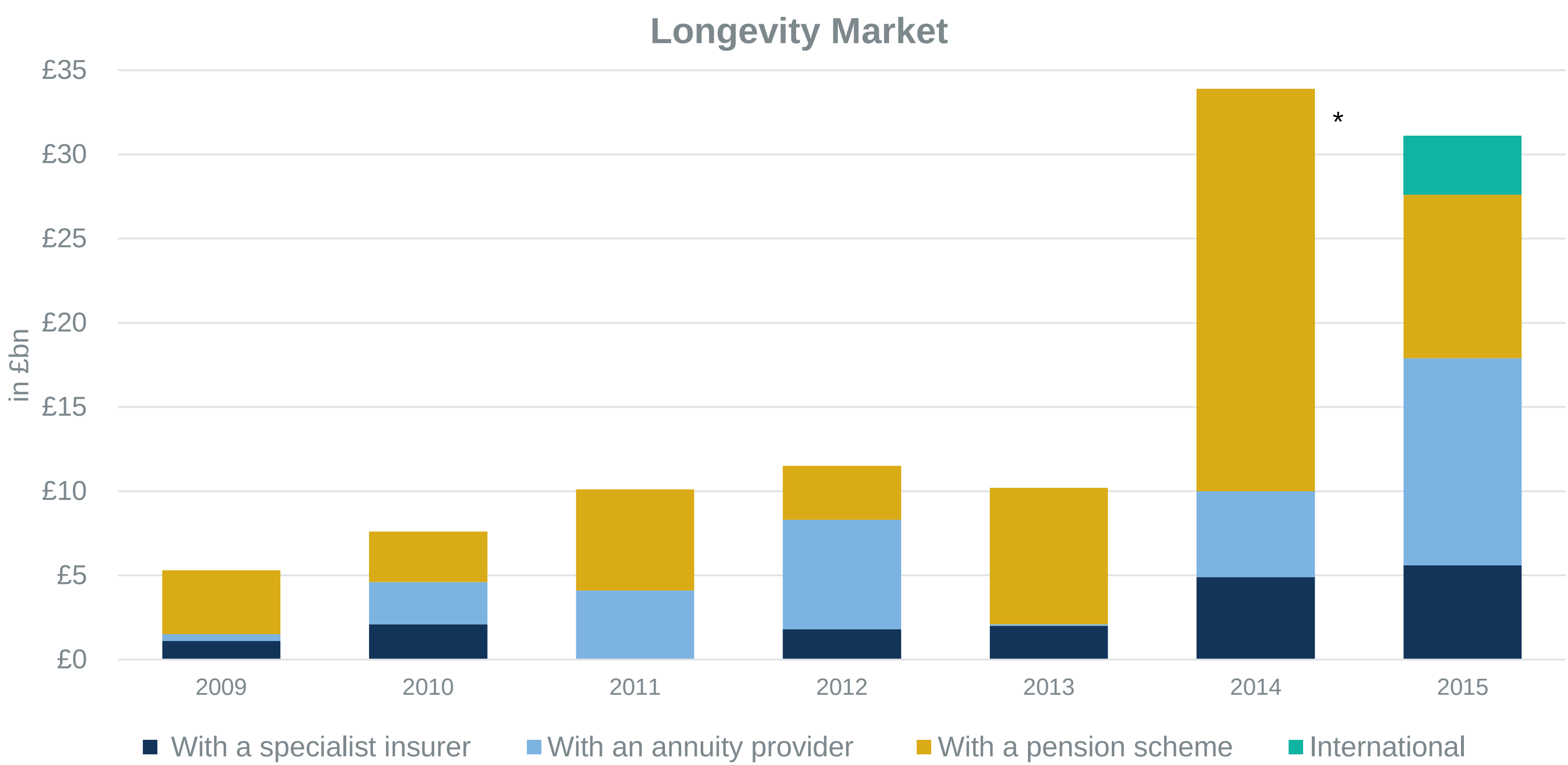
Recent longevity market activity



* Includes £16bn - BT deal

Source: Munich Re: UKLB internal database as at Jan-2016

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Executing deals
- So what's involved

Agreeing a Model
- Design & build model
- Test model (all involved)
- Agree & lock down model
- Apply model

Pricing
- Quotes
- Agree a price
- Reconcile prices
- Arrive at execution price

Approvals
- Documenting the deal
- Brief stakeholders on the deal
- Secure stakeholder approval

Risk / due diligence
- Document due diligence
- Scheme (benefits)
- Due diligence
- Site visit / audit

Legal
- Term sheet
- Legal structure
- Draft contracts
- Contract negotiations
- Executed contract

Operational
- Develop & agree payment cycle processes
- Develop & agree data processes
- Arrive at a operational business model

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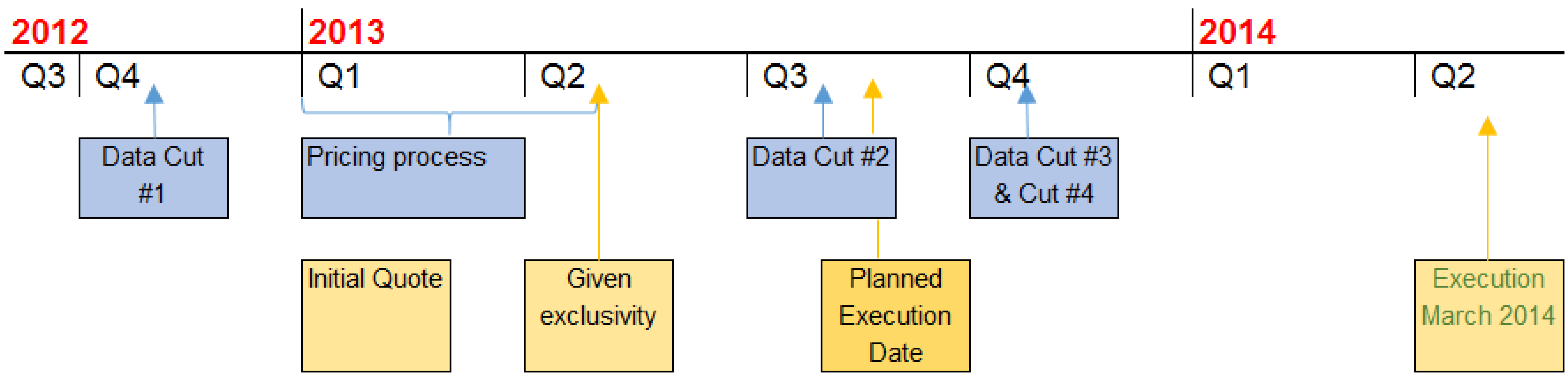
Executing a deal
– A real timeline that did not go to plan



So how can I make transacting more likely?

Be prepared before you tender for quotes

– have your data "fit for purpose"

Keep it simple

Be realistic – transactions are 95% about "price"

Avoid spending time and money on "last fad" solutions

Think carefully about the role of the deal advisors

Be prepared to negotiate and compromise

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Bio

- Martin Lockwood - Head of Longevity Munich Re, including both the UK and Global Longevity markets
- Joined Munich Re in 2011 as specialist in annuities, defined benefits and longevity swaps and has since overseen the execution of a number of longevity transactions
- Before Munich Re, Martin had already accrued a wealth of experience at Prudential, where he managed the £1bn transfers of the Scottish Life, Phoenix and Royal London back book deals – which included overseeing the Part VII transfers. He also supervised the accompanying arrangements and signing of a vesting deal with a number of insurers and banks. He also spent some time overseeing transactions in the defined benefit arena

Summary

The “Problem” – Increasing Longevity ✔

What is a Longevity Swap? ✔

UK Longevity De-risking Solutions ✔

UK Longevity Swap Market ✔

Sources of longevity business ✔

Recent longevity market activity ✔

Developments in the Longevity Market ✔

Executing deals ✔

How can I make transacting more likely? ✔

Questions and Discussion

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