Swiss Re

Longevity hedging

Presentation to the ACA

8 September 2011

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Longevity insurance and swaps are here to stay

"The market is too young"

2007	GBP 1.7bn	Friends Provident → Swiss Re
2007	GBP 1.8bn	Co-op Insurance → Swiss Re
2008	GBP 0.1bn	Lucida → JP Morgan
2008	GBP 0.5bn	Canada Life (UK) → JP Morgan
2008	AUD 0.4bn	Australian insurer → Swiss Re
2009	GBP 1.5bn	Abbey Life → Pacific Life Re & RGA
2009	GBP 0.5bn	Norwich Union → RBS
2009	GBP 1.2bn	Babcock Int. pension funds → Credit Suisse
2009	GBP 1.9bn	RSA pension funds → Rothesay Life
2009	AUD 0.3bn	2nd Australian insurer → Swiss Re
2009	GBP 1.0bn	Royal County of Berkshire pension fund → Swiss Re
2010	GBP 3.0bn	BMW pension fund → Abbey Life
2010	GBP 1.3bn	British Airways → Rothesay Life
2010	CAD 1.5bn	Industrial Alliance → Not disclosed
2011	GBP 0.5bn	PIC → Not disclosed
2011	GBP 0.1bn	Pall pension fund → JP Morgan
2011	GBP 0.1bn	Rothesay Life → Pru. Retirement
2011	GBP 1.1bn	Paternoster → RGA
2011	GBP 1.7bn	ITV pension fund → Credit Suisse

Quotation source: PensionsBuzz survey, Incisive Media, 25.8.2011
Source for tables: Swiss Re

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Standardisation vs tailoring vs complexity

"Longevity swaps are more complex to transact than conventional buy-ins, more complex to administer and invariably accompanied by a high maintenance security structure"

- Longevity insurance is simple: a regular premium annuity buy-in
- Flexibility also a weakness:
  - ✓ Tailoring to meet client objectives
  - ✓ Creativity
  - ✗ Complex, because "we can"
- Standardisation:
  - ✓ Makes the solution accessible to smaller pension plans
  - ✗ Larger pension plans will always want to tailor

Some market standardisation is occurring as more cases transact. "Complexity" is becoming less of an issue as more advisers gain live experience in this area

Quotation source: PensionsBuzz survey, Incisive Media, 25.8.2011

There is no capital market (of substance) in longevity

"This is another investment bankers' wheeze for stealing, in legal form, from pension schemes"

Babcock International	GBP 1.2 bn	Credit Suisse	Pacific Life Re, RBC, RGA
RSA	GBP 1.9 bn	Goldman Sachs / Rothesay Life	Pacific Life Re
Royal County of Berkshire	GBP 1.0 bn	Swiss Re	
BMW	GBP 3.0 bn	Deutsche Bank / Abbey Life	Hannover Re, Partner Re, Pacific Life Re
British Airways	GBP 1.3 bn	Goldman Sachs / Rothesay Life	Pacific Life Re
ITV	GBP 1.7 bn	Credit Suisse	Reinsurance market? (tbc)

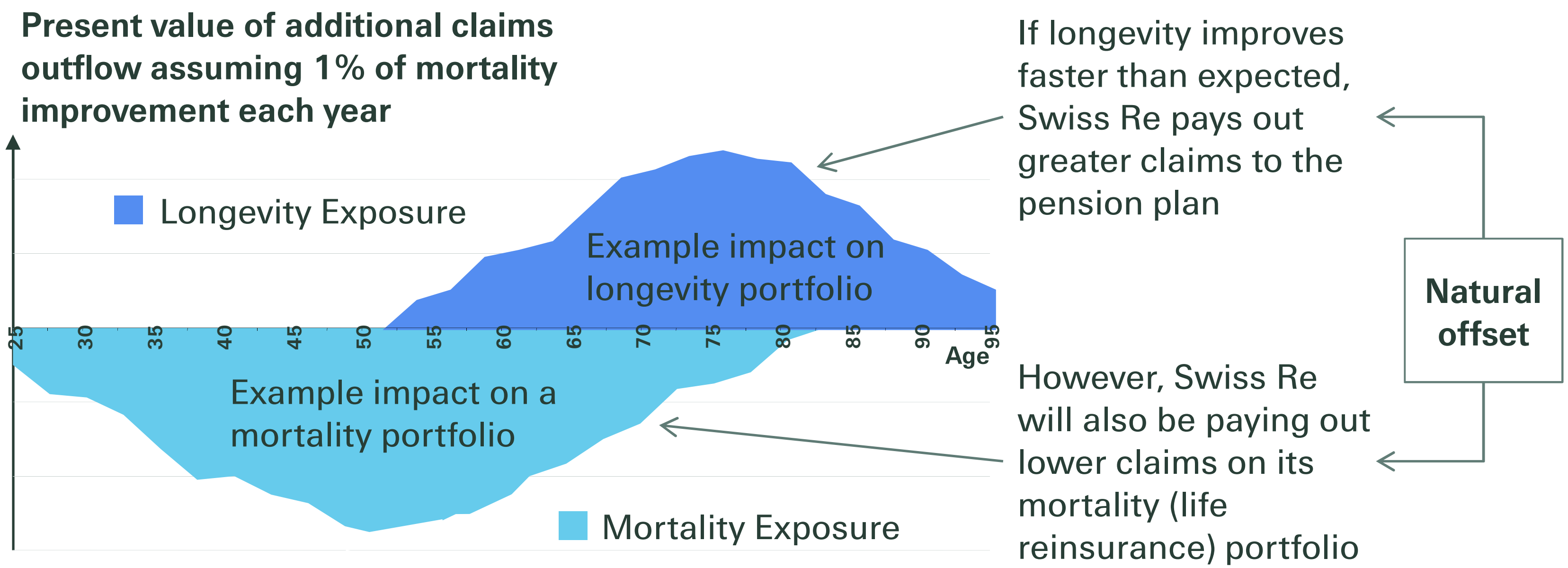
For so long as some reinsurers remain one step away from the UK pension market, banks and other intermediaries have an important role

Quotation source: PensionsBuzz survey, Incisive Media, 25.8.2011

Insurance or investment?

"Writers of longevity swaps are not serious gamblers and are in it for profit"

Present value of additional claims outflow assuming 1% of mortality improvement each year



Many pension stakeholders view longevity hedging as an investment to be made only if the return is positive, rather than protection for which a premium is paid

Quotation source: PensionsBuzz survey, Incisive Media, 25.8.2011

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Annuitisation – a real and genuine concern

"I can see problems .... if and when schemes want to buyout"

- Can be dealt with – the 5 transactions to date evidence this
- Options can include:
  - Client right to terminate at any time
  - Automatic termination and settlement after X years
  - Good faith obligations to novate to the bulk annuity insurer
- Put into perspective:
  - Buyout in 25 years – only 15% of pension values remain
  - How bad must things become on 15% to negate the original purchase of protection on 100%?

No "magic bullet" yet, but the annuitisation question should not be a barrier to clients hedging longevity

Quotation source: PensionsBuzz survey, Incisive Media, 25.8.2011

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To conclude:

- Longevity hedges - no longer a niche solution
- Some standard market practices are starting to evolve
- This is not a capital market, but intermediaries have a role
- Reinsurers have a reason for wanting to hold longevity. Do pension plans?
- The buyout issue can be resolved

.... and in the meantime life expectancy continues to improve

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