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For sale: annuity One careful owner, full service history.

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03 November 2015

Presenters



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Interest in secondary annuity market as a driver for product innovation



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Interest in secondary annuity market as an asset class

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Agenda

1. Background
2. Customers
3. Insurers
4. Investors
5. Conclusion
6. Questions

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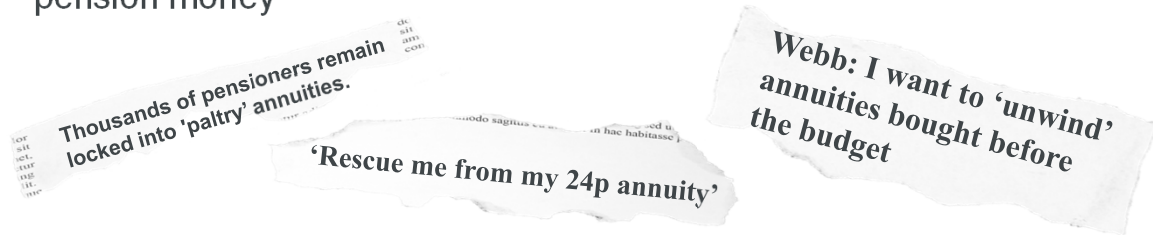
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Background

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What the government is proposing and why

- 2014 Budget gave total freedom over how savers could withdraw pension money

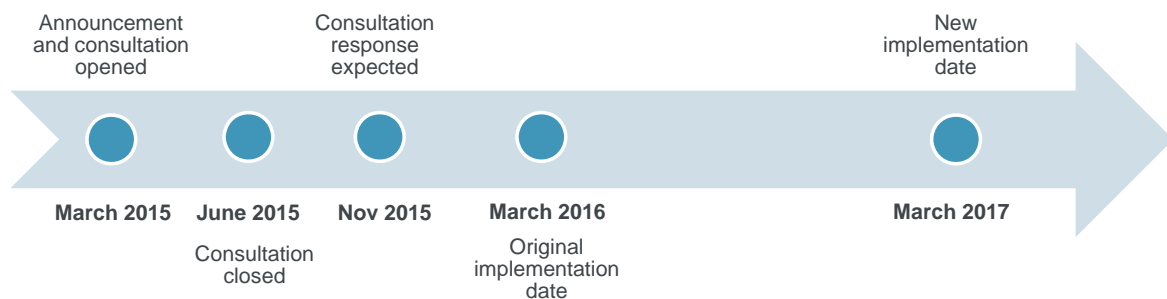


- 2015 March Budget announced further pension freedoms to those already with an annuity
- Allowing individuals to 'sell' (reassign) their annuities

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Timeline



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Customers

Why sell?

Consumer protection

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Why would a customer want to sell their annuity?

Control assets and wealth

- Reconfigure income
- Lump sum
- Rationalise small annuities
- DB buyouts

Ability to pass on wealth

- Now
- Later in life
- On death

Profitable?

- Knowledge asymmetry
- Value of annuity
- Guaranteed annuity rates
- Tax advantages

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How to help a customer decide?

Understand
what
gives

Advice

for
ey

State benefits

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Insurers

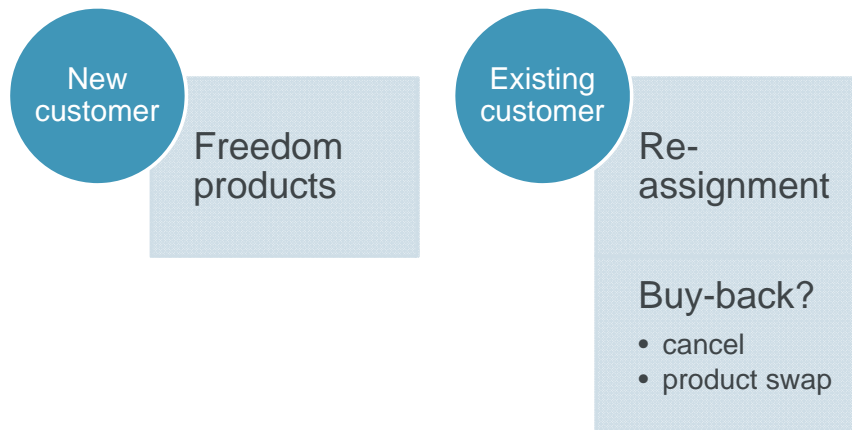
Opportunities

Issues to overcome

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Enterprise
Sponsorship
Thought leadership
Progress
Community
Sessional Meetings
Education
Working parties
Volunteering
Research
Shaping the future
Networking
Professional support
Enterprise and risk
Learned society
Opportunity
International profile
Journals
Support

Opportunities for insurers



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Overcoming issues for existing annuity writers

Costs	Death tracking	Losing customer contact	Underwriting (if buy-back)
<ul style="list-style-type: none"> • Re-assignment cost • Consumer protection • Admin/system development 	<ul style="list-style-type: none"> • Death register • Simpler solutions 	<ul style="list-style-type: none"> • Cross-selling reduced • Product swap? 	<ul style="list-style-type: none"> • Existing procedures

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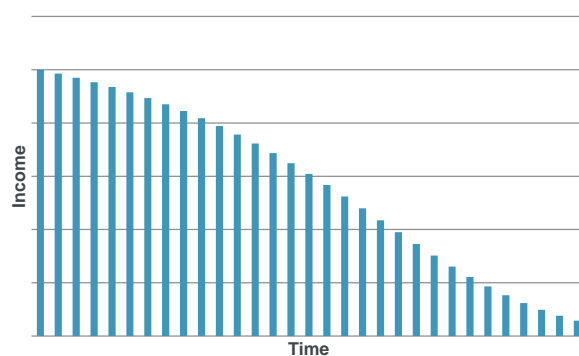
Investors

Who and why?
Challenges

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Investors

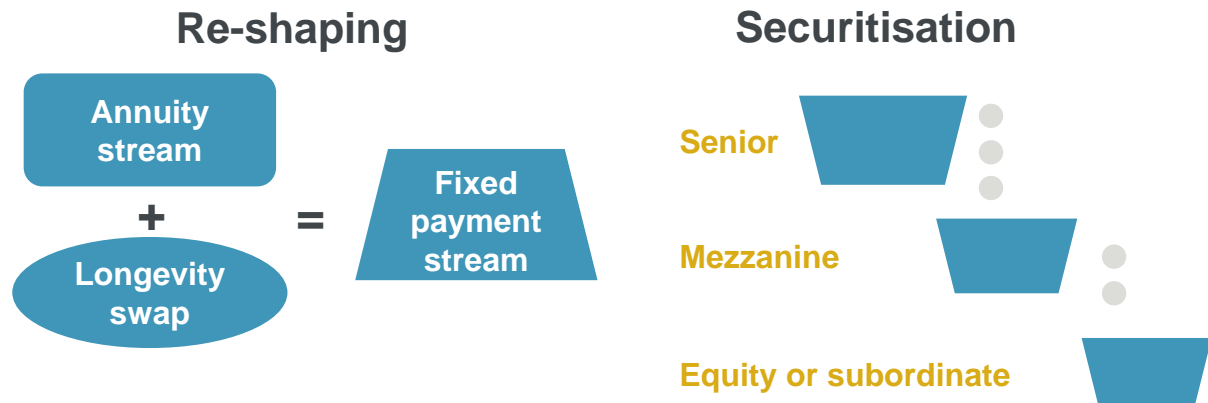
- Who?
 - insurers / re-insurers
 - pension funds
 - retail?
- Why?
 - fixed/predictable income
 - inflation linked?
 - low counterparty risk (FSCS)
 - partial longevity hedge



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Asset options



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Underwriting

- Information asymmetry
 - between buyers
 - seller to buyer
- Industry-wide solution
- Ability to price
- Reliability / selection risks
 - reinsurance
 - term assurance

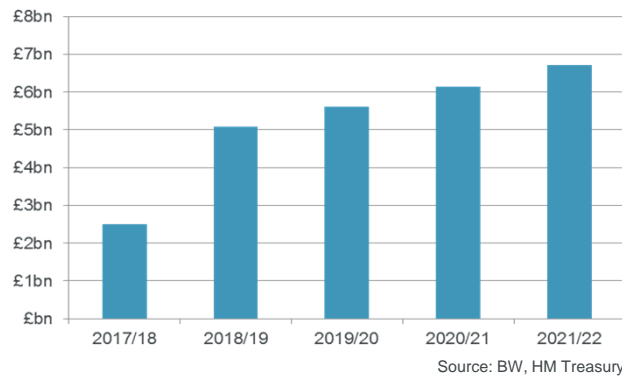


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Market size

- Current annuity market AUM £250bn +
- New annuity business ~ £10bn a year
 - bulk purchase annuities
- Assuming
 - 1% in years 1&2
 - 0.2% thereafter



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Investor challenges

Matching
adjustment
considerations

Asset
valuation

Liquidity

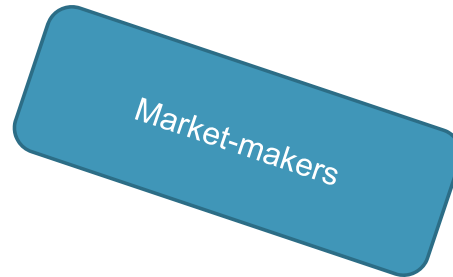
Costs

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Other secondary insurance markets

- Traded endowments (UK)
 - over half of all endowments traded before maturity
- Life settlements (US)
 - \$2bn+ traded p.a.
- Secondary market annuities (US)
 - primarily fixed term
 - \$600m-\$1bn worth traded per annum
 - spreads 2-3% above US Treasuries
 - institutional & retail
 - legal process



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Conclusion

Viable market?

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Conclusion

Consumers

- Straightforward process
- Advice / protection
- products
- Value?

Insurers

- Compulsory?
- Charges / market size
- Annuity buy-back / swaps

Investors

- Buy in
- Und
- Y
- Needed?



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Questions

Comments

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