

IoA Mortality & Longevity Seminar 2012
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Longevity Swaps Reinsurance Perspective

12 June 2012

Agenda

- SCOR's interest in Longevity
- Transaction Practicalities
 - From Deal Selection to Crossing the Finishing Line
- Observations on Rolls Royce

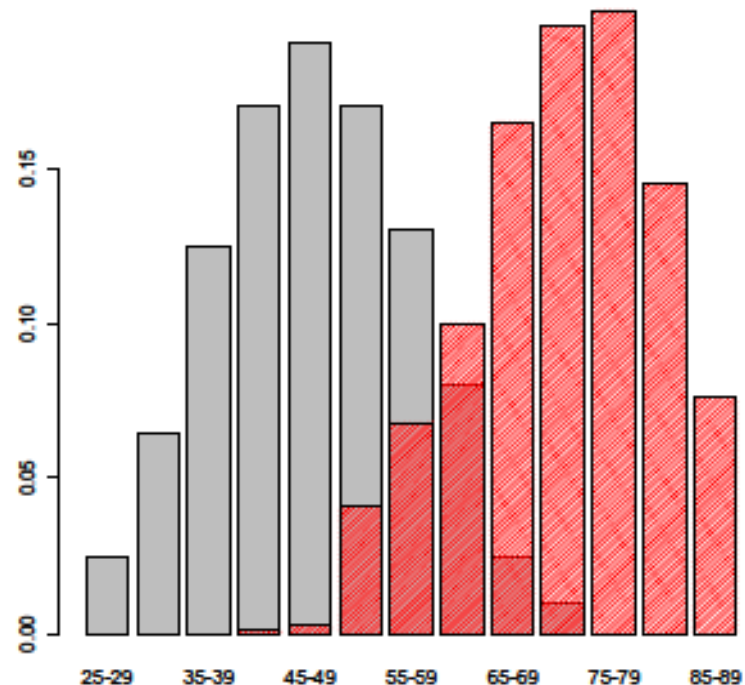
SCOR's interest in Longevity Strategic Initiative

- Long term demand
 - Demographic changes
 - DB to DC switch
- Diversify revenue stream
 - Mature mortality markets (e.g. UK and US) offer low growth opportunity
- Natural extension of mortality risk expertise
 - Paris R&D centre has combined mortality and longevity team

SCOR's interest in Longevity Strategic Initiative

Capital optimisation

- Diversifies against existing large mortality portfolio
- Not perfect hedge (e.g. by age) but some negative correlation expected
- Solvency 2 focussing attention



**Illustrative mortality longevity
age distribution overlap**

SCOR's interest in Longevity

Why Now?

- De-risking path high on schemes' agenda
 - Regulatory, accounting and hence shareholder pressure to better manage pension liabilities
 - Low interest rate environment makes unfunded transactions relatively more appealing
 - Education by pension scheme consultants
- Scheme longevity assumptions moving more closely in line with (re)insurer view
- Quality of data for pricing improved
- Currently, sufficient capacity creating healthy market
- Transaction momentum

Transaction Practicalities

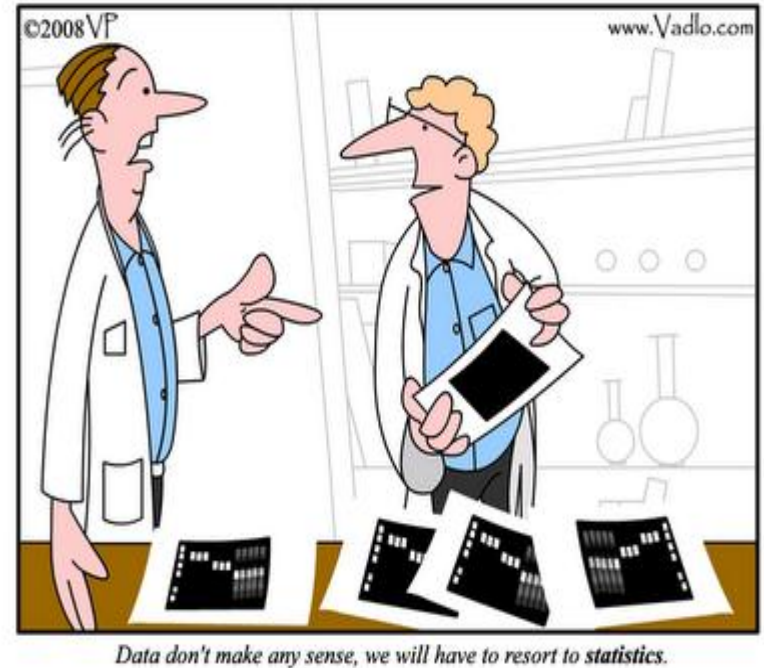
Deal Selection

- Transactions can be resource intensive
- Lengthy elapsed time from scheme interest to deal signing
- Assess likelihood of transaction completion
 - Engagement of corporate AND trustee
 - Specific pressures (e.g. pre M&A preparation)
 - Insurer/bank selected yet?
 - Money being spent on advisors (especially legal)
 - Quality of data

Transaction Practicalities

Pricing Data

- Reduced uncertainty in assumptions -> better price
 - Credible, clean mortality experience data
 - Recent information on dependants: existence, age
 - Confirm accuracy and completeness via due diligence
- Such data not typically needed for pensioner administration so may need pre-transaction data exercise



Transaction Practicalities

Data and Operational Risk

- Price level typically expects scheme to retain data risk
 - Mechanism in contract to alter price in event of incorrect data
 - Scheme will recognise data corrections impact on technical provisions basis anyway
- ...and operational risk
 - Cover to actual date of death
 - Existence checking and payment suspension process agreed in advance
 - Audit rights

Transaction Practicalities

Collateral Arrangements

- Expected by all parties for larger transactions
- Experience collateral and fee collateral
- Degree of complexity and flexibility depends on needs of parties involved
- Operational capabilities of parties

Transaction Practicalities Crossing the Finish Line

- Internal committee sign offs
 - Scheme, corporate, insurer/bank, reinsurers
- Inevitably lots of advisors!
- Unexpected(!) legal complexities are typical
- Transaction experience of advisors and parties is improving timelines

A marathon with a sprint finish!



Rolls Royce

Observations on a successful transaction

- Data - good quality and quantity improves pricing
- Transparent due diligence process – reinsurer access to AonHewitt directly when needed
- Maintain momentum – pushing client for final decision
- Strong project management by all parties

Questions or comments?

Expressions of individual views by members of The Actuarial Profession and its staff are encouraged.

The views expressed in this presentation are those of the presenter.

