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Developments in longevity risk transfer

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24 February 2016



My, how things have changed!

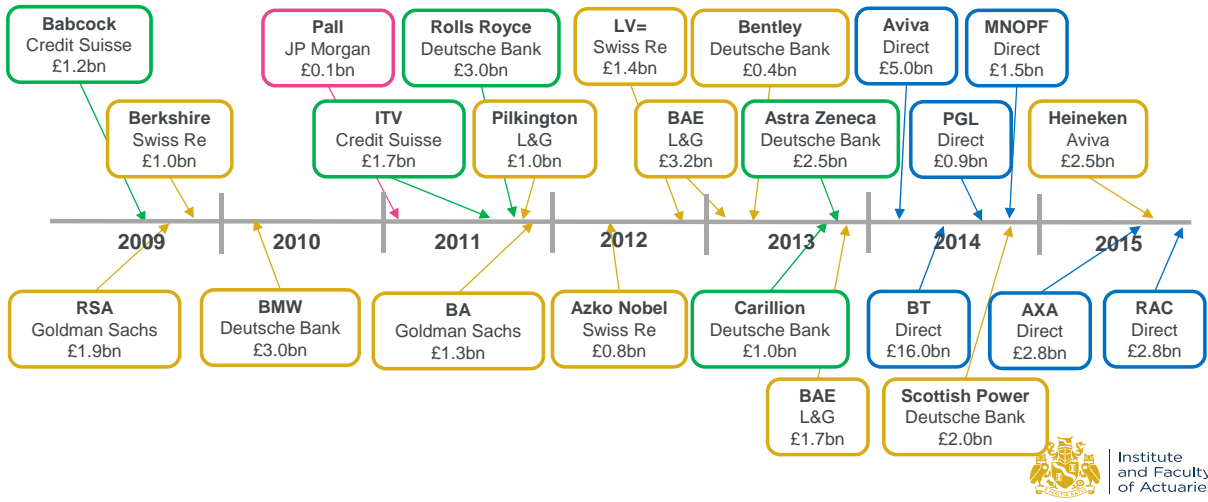
- 1990s
 - Only 1 or 2 reinsurers active
 - Late 1990s: £400m bulk annuity Old Mutual -> XL Re
- 2010s
 - 10+ reinsurers active
 - Absorbing around £15bn of longevity risk per year



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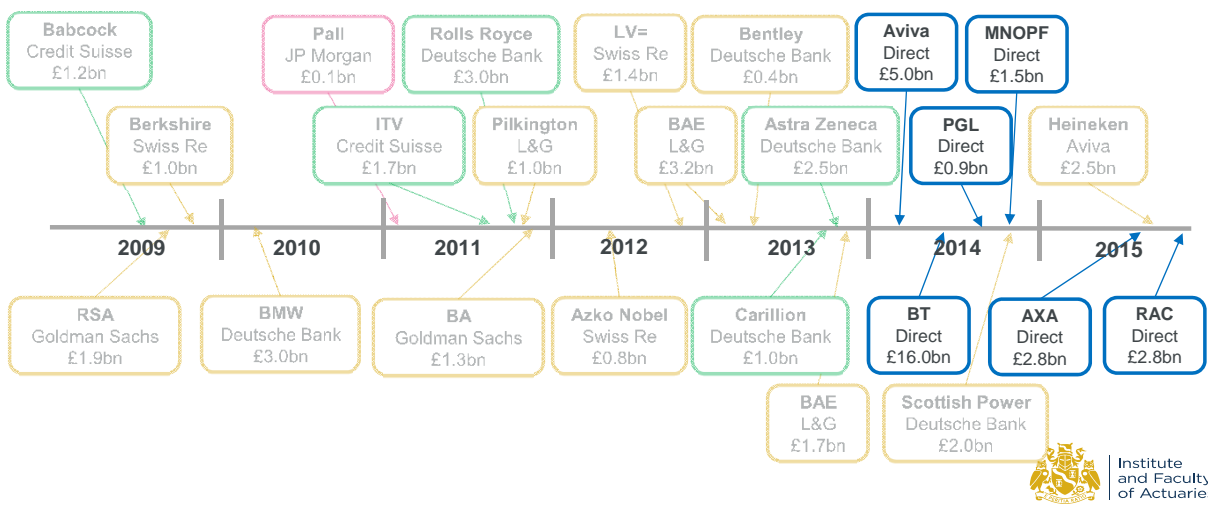
Pension scheme longevity swaps



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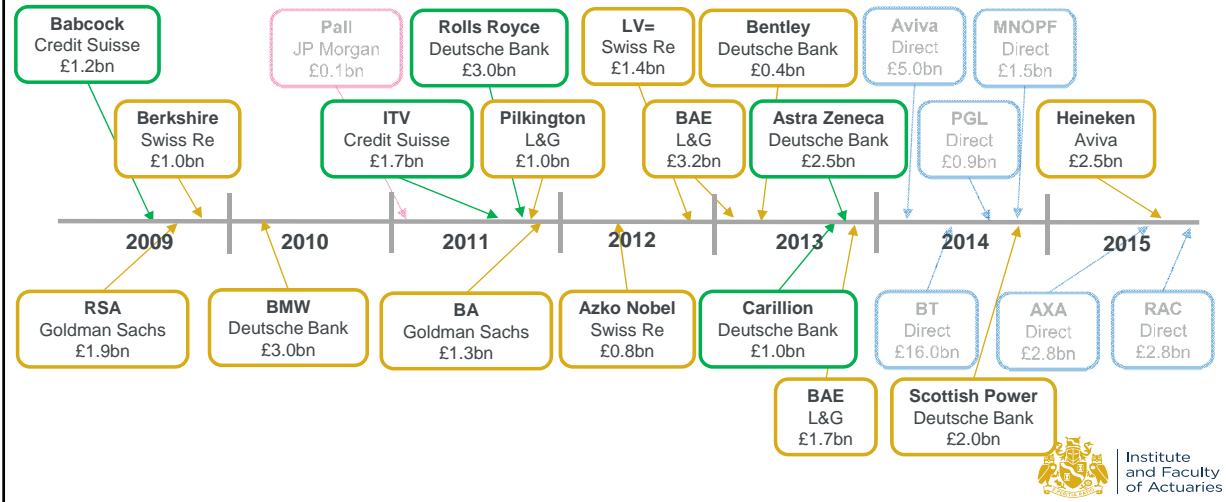
Growth of disintermediation



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Insurance vs derivative



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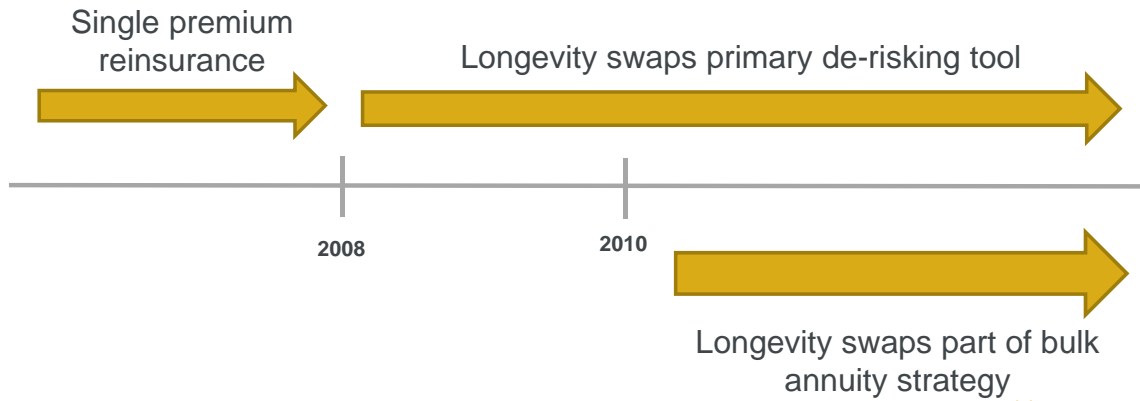
Future – pension scheme longevity swaps

- Large pension scheme deals continue
 - Disintermediated or risk pass-through structures
 - Advisor-run broking model – continual pressure on reinsurer commercial terms
- Smaller deals
 - Standardization
 - Collective pricing view
- Increase focus on buy-in/out conversion

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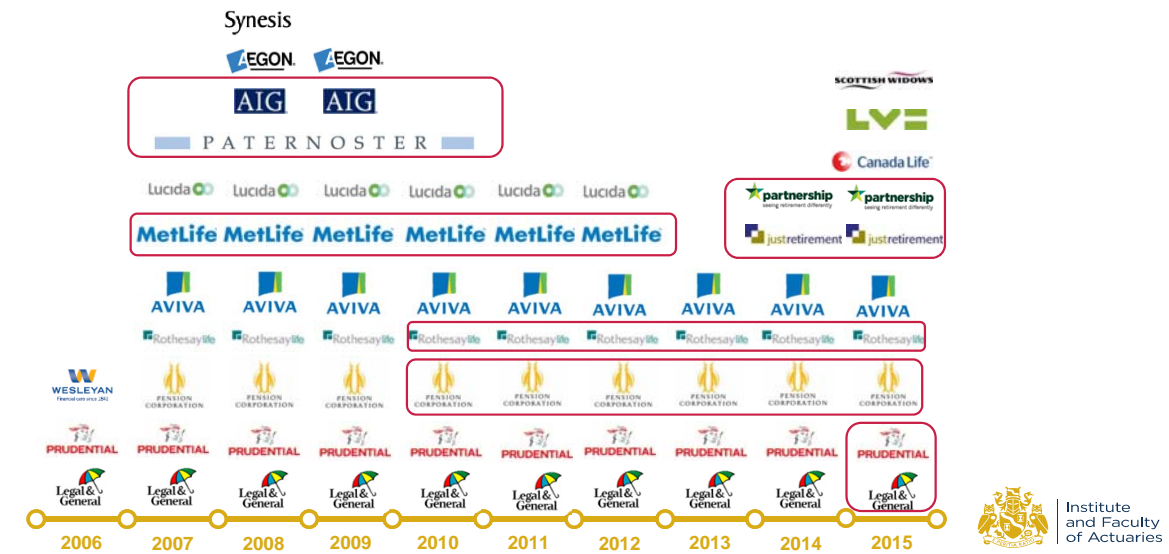


Insurance reinsurance trends



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Influence of bulk annuity market



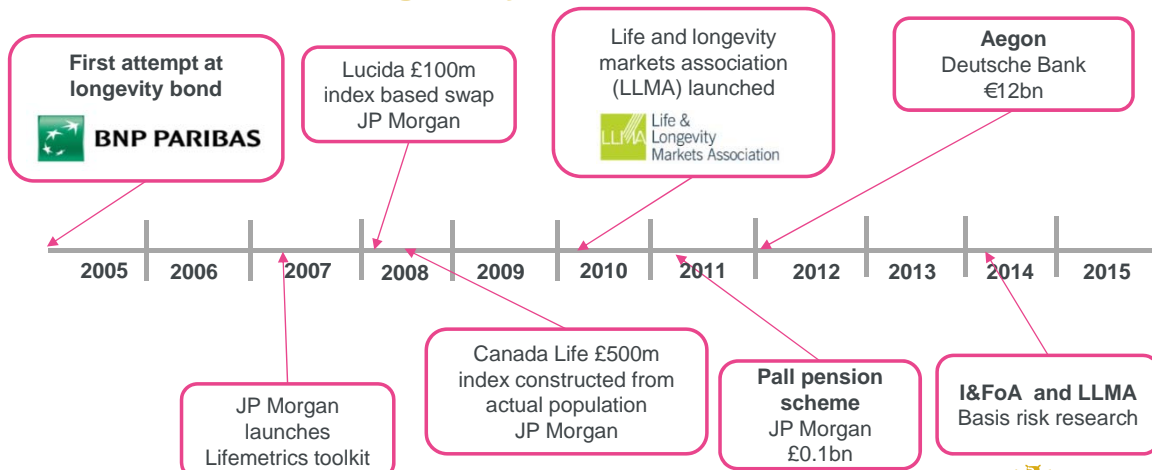
Future – insurer longevity swaps

- Significant element of future bulk annuity business hedged
 - £10bn-15bn p.a.
- Back to back trades on large transactions
- Secondary annuity market



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Index based longevity swaps evolution



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Future – index based longevity swaps

- Insurer capital management tool
- Reinsurer key role in market development
- Source of capacity once reinsurers' longevity/mortality risks balanced
- Significant potential
 - DB pension scheme de-risking
 - Longevity exposure for DC pension investments
- Confident market will develop



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