



The Development of a Liquid Market in Traded Mortality and Longevity

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The Market to Date

- > Corporate Pension Scheme Potential Transactions
 - UK market estimated in excess of GBP1,000bn
 - To date limited transactions
 - Political, accounting and economic landscape is continually changing
- > Insurer to Insurer Potential Transactions
 - Very small compared to size of corporate liabilities
 - Represents the majority of bulk annuity deals so far
- > Bulk Annuity Market
 - Bulk annuity buy outs in the region of GBP1bn - GBP2bn per year
 - Scheme ownership



Market Constraints

> Outstanding Hurdles

- Need an established market bid / offer price on longevity
- Needs to be packaged as a shorter term asset
- Market needs greater confidence in the future trend assumption
 - > There can be significant basis risk
 - > Mark to model pricing
- Investors need greater understanding of this asset class

> Wider Economic Environment

- Diversified risk?
 - > The correlation is yet to be tested
- How liquid can an exotic structure be in the current climate?



Market On The Up

> Overcome Hurdles

- Increase in levels of supply
- Longevity is being increasingly understood
- Longevity indices have started
- Innovative structures are being created
- Solution to scheme ownership

> Investor Interest

- Noticeably rising
- Waiting for an acid test
 - > EIB/BNP bond, November 2004



Fitch's Involvement and Outlook

- > Fitch anticipates growth
 - An increasing number of suppliers
 - May still be a few years away from “exploding”
- > Fitch's Involvement
 - Willing to provide a rating opinion on long dated assets
 - Transactions to date have just fallen short
 - > Largely due to investor interest
 - Life settlements



Conclusion

- > Fitch anticipates growth
 - Hurdles still to overcome
- > Tangible growth in supply
- > Demand growth is as yet untested
 - But there is significant noise
- > A very interesting area



Fitch Ratings

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