

PRESS RELEASE

New association launched to promote trading of longevity risk as an asset class

London, 1 February 2010

The Life and Longevity Markets Association ('LLMA') announces its launch today.

The LLMA has been formed to promote the development of a liquid traded market in longevity and mortality-related risk, of the type that exists for Insurance Linked Securities (ILS), and other large trend risks like interest rates and inflation. The association will support the development of consistent standards, methodologies and benchmarks to help build a liquid trading market, necessary to support the future demand for longevity protection sought by insurers and pension funds.

The LLMA has been established by AXA, Deutsche Bank, J.P. Morgan, Legal & General, Pension Corporation, Prudential, RBS and Swiss Re.

"In the UK alone the total pension liabilities of all parties exceed £2 trillion. When one considers the size of the worldwide market it becomes clear that all parties would benefit from the development of a liquid traded market in life and longevity risks."

John Fitzpatrick, a Director of the LLMA said: "The launch of the LLMA brings together a number of parties to create marketwide standards suitable to promote a liquid traded market. Longevity risk is starting to move to pension insurers and reinsurers in significant volumes but much more is likely in the future from pension funds anxious to control their future liabilities. The LLMA's work will bring benefits to capital markets investors enabling their investment and trading through the growth of a new and uncorrelated asset class. Insurers and reinsurers will benefit by bringing standardised structures to what is today a private, bespoke market. Pension Funds and others with significant financial risk from longevity will benefit from the increased capacity a standardised market will create. Such a marketplace would permit new and flexible solutions for those with longevity and mortality exposures. Increased capacity will also allow pension funds and others to help achieve their objective to secure their members' benefits for the long term sooner than would otherwise be the case. This development would go a long way to promote a much-needed stability in retirement systems."

Increasing numbers of pension funds will seek to stabilise their liabilities through longevity insurance and swaps.

As the baby boomers retire and longevity expectations continue to increase across the developed world at historically high rates against largely fixed retirement / entitlement dates demand will rise for ways to protect against this growing financial risk. The development of longevity trading will help to address the future expected demand in the market and allow more and more pension funds to secure their members' benefits for the future."

"To date almost all longevity capacity has been provided by the insurance and reinsurance markets. However, given the vast size of global pension liabilities, it is clear that there will be insufficient capacity in these markets to absorb the risks. It is our belief that the capital markets will have an appetite for assets like these that are not correlated with market or credit risks, and hence we have set up the LLMA to facilitate the evolution of the market."

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NOTES: Factfile on the LLMA

Objective

The objective of the Association is to provide a forum for market participants to collaborate with a view to articulating criteria for, and assisting in the establishment of, suitable and consistent standards, conventions and best practices to promote liquidity in the trading of financial instruments that reference longevity and mortality related risks as well as consistency of relevant demographic data

Benefits

Benefits that will be delivered by the Association include improved transparency due to the development of standard indices for longevity, standard financial products linked to longevity and standard methodologies for valuing products.

Scope

The primary focus of the LLMA is pension-related longevity and mortality, rather than life settlements. In the short term the LLMA will be primarily focused on the UK market for longevity and mortality, but may later expand its horizons to other countries.

The focus of the Initiative is exclusively on macro-life related longevity and mortality risk and not on micro-life (i.e. Life Settlements)

Participation

Current members of the LLMA are AXA, Deutsche Bank, J.P. Morgan, Legal & General, Pension Corporation, Prudential, RBS and Swiss Re.

The consortium is not a commercial or for-profit venture and it is the intention that any IP developed by the consortium will be made available for use by all market participants

Planned output

The LLMA plans to set standards for the new trading market it wish to promote. These are likely to include:

- Templates for standardised longevity products
- A longevity trading index
- Standardised Valuation model for longevity

Contacts

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About the LLMA

The Life and Longevity Markets Association ('LLMA') is a non-profit organisation founded and funded by current members: AXA, Deutsche Bank, J.P. Morgan, Legal & General, Pension Corporation, Prudential, RBS and Swiss Re. It aims to promote the development of a liquid traded market in longevity and mortality-related risk. The association supports the development of consistent standards, methodologies and benchmarks to help build a liquid trading market, of the type that exists for Insurance Linked Securities (ILS), and other large trend risks like interest rate and inflation.