News release

Swiss Re

# The scale of longevity risk is too vast for insurers alone without the development of a capital market, says new Swiss Re report


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**Zurich, 24 September, 2012 – A liquid capital market in longevity risk can ensure long-term funding of people's longer lives, says Swiss Re's newest publication, *A mature market: Building a capital market for longevity risk.* The report addresses many of the questions posed by investors, regulators and pension funds about whether a longevity capital market is viable and how such a market might work.**

Life expectancy is increasing globally. As people live longer, ensuring that they can retire with sufficient financial security to enjoy the years to come is one of the biggest challenges facing society today. Reinsurers and insurers are playing a lead role for both pension funds and individuals in helping them to shoulder the risk through products such as longevity insurance – sometimes referred to as a longevity swap – and annuities. However, recent estimates suggest that the average pension fund scheme is underfunded by 24%[1] and defined benefit assets which are exposed to longevity risk total over USD 20 trillion globally[2]. This means that there is an increasing need for ways to extend insurance industry capacity and ensure a sustainable funding system for longer lives.

"A capital market for longevity risk will be vital for the insurance industry in the long term," explains Alison Martin, Head of Life & Health Reinsurance at Swiss Re. "As the scale of the risk is so vast, capacity is unlikely to meet the future demand for longevity products without a capital market."

Swiss Re's report explores the questions being posed by investors, pension funds, insurers and regulators. Who would participate in a longevity capital market? How would a market be profitable for investors? What would be the function of longevity risk in an investor's portfolio? What is the role of policy-makers and governments in such a market? Would pension funds access the market directly?

*A mature market* draws on the lessons learned from established capital markets, such as the UK inflation market and insurance-linked securities markets, as well as a previous successful longevity capital market transaction. These examples provide insight into the

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[1] Towers Watson, 2011
[2] International Monetary Fund, 2012

opportunities and pitfalls in building investor trust in a potential longevity market.

The study also contains interviews with potential investors who have differing opinions over the extent to which a longevity market is a realistic vision. Their concerns include general pricing considerations, the role of regulators and rating agencies, and the level of education in the market.

Martin concludes: "A liquid market would form part of an overall solution. We will work together with other stakeholders in society to create a system that is sustainable throughout people's longer lives."

### Note to Editors:

Copies of *A mature market: Building a capital market for longevity risk* can be obtained at http://www.swissre.com/rethinking/longevity/

Swiss Re's longevity experts are available to discuss longevity risks.
For interviews please contact Swiss Re media relations +41 43 2857171 or Media_Relations@SwissRe.com

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