ABI RESPONSE TO CONSULTATION ON LONGEVITY RISK TRANSFER MARKETS

Thank you for the opportunity to respond to the consultation on longevity risk transfer markets. As UK insurance firms are leaders in the field, we feel it is important to respond – in part as a signal of the significant impact any policy proposals would have on our established market.

We agree that longevity risk is a serious issue that will have a global effect. We were pleased that the consultation recognises the positive contribution the risk transfer market makes by removing liabilities from business and pension schemes.

We are supportive of better communication and cooperation per the first recommendation because, as the consultation paper notes, “these markets are a rather uncharted territory for analysts, academics as well as for supervisors”. Consulting stakeholders with a wide range of expertise and experience will be critical in fulfilling the objective of producing effective policy outcomes. However, we would urge supervisors looking to avoid regulatory arbitrage to be mindful of the unique national circumstances as recognised in your document and that this is a growing market which needs room to innovate.

As identified, the UK has an established longevity risk transfer market in buy-outs, buy-ins and longevity insurance. We are proud of this market, and this year we have seen the largest UK pension insurance buy-out. Significant decisions will need to be made in putting your policy recommendations into action and we strongly encourage European supervisors and policymakers to engage with the UK insurance industry in developing their views.

We would agree with the assessment that the market is currently under-utilised and there is much unrealised potential, and our analysis and efforts have focussed on achieving greater efficiencies in transactions. Our experience is that much time and resource is wasted in failed transactions, which could be improved
by better scheme data and increased knowledge by pension trustees about longevity risk market processes. We are seeking to improve this situation through non-regulatory avenues such as raising awareness amongst trustees and employers about risk transfer options and how to go about a transaction. By increasing efficiency, we also aim to ease any potential capacity strain which could come about as a result of high transaction failure rates.

In terms of the latter policy recommendations, the incoming Solvency II Directive provides for comprehensive quantitative and qualitative standards relating to business being written. This requires insurers to be able to identify, measure, monitor, manage and report the risks to which they are exposed. This includes longevity risk, for which an appropriate amount of capital must be set aside to cover. Insurers will also be required – on a regular basis – to submit large amounts of detailed information to supervisors on both their assets and liabilities. This should be the starting point for supervisors when seeking data on the longevity risk transfer market; duplication of requirements should be avoided wherever possible. Information requests from supervisors should be justified and the costs to industry of providing any information duly considered. It would be unreasonable and unnecessary to introduce additional requirements for insurers above and beyond those already required by Solvency II.

We would also welcome the opportunity to contribute to any on-going work by the Joint Forum in this area, and would be happy to provide further information on request. Do not hesitate to contact me should you wish to discuss this issue in more detail.

Dr Yvonne Braun
Head of Savings, Retirement and Social Care