

## Life Securitisation

Life ILS Conference 2019

Nicholas Bugler | Kirsty Maclean

15 May 2019

# Agenda

- What is securitisation?
- The evolution of securitisation in the life market
  - Some applications of securitisation technology
  - Value-in-force monetisation – contingent loan
  - Value-in-force monetisation – quota share reinsurance
  - Value-in-force monetisation – capital markets
  - A classical VIF structure – Gracechurch
  - Equity release mortgage securitisation
  - Short term asset/longevity risk transaction case study – Highland Re
  - Asset/longevity risk transfer structure – using a SPV/third party capital
  - Asset/longevity risk transfers using UK PCC transformer
- Q&A

# What is securitisation?

- (1) ... “a process by which assets are sold to a bankruptcy-remote *special purpose vehicle* in return for immediate cash payment and that vehicle raises the immediate cash payment through the issue of debt securities in the form of tradeable notes or commercial paper.”
- (2) ... “a transaction or scheme whereby the credit risk associated with an *exposure* or pool of *exposures* is tranching having the following characteristics:
  - (a) Payments in the transaction or scheme are dependent upon the performance of the *exposure* or pool of *exposures*; and
  - (b) The subordination of *tranches* determines the distribution of *losses* during the ongoing life of the transaction or scheme.”
- (3) ...

Securitisation definition  
FCA Glossary

# What is securitisation?

Securitisation involves transactions that enable a lender or a creditor – typically a credit institution or a corporation – to refinance a set of loans, exposures or receivables, such as residential loans, auto loans or leases, consumer loans, credit cards or trade receivables, by transforming them into tradeable securities. The lender pools and repackages a portfolio of its loans, and organises them into different risk categories for different investors, thus giving investors access to investments in loans and other exposures to which they normally would not have direct access. Returns to investors are generated from the cash flows of the underlying loans.

Securitisation definition  
EUR – Lex: EU Law

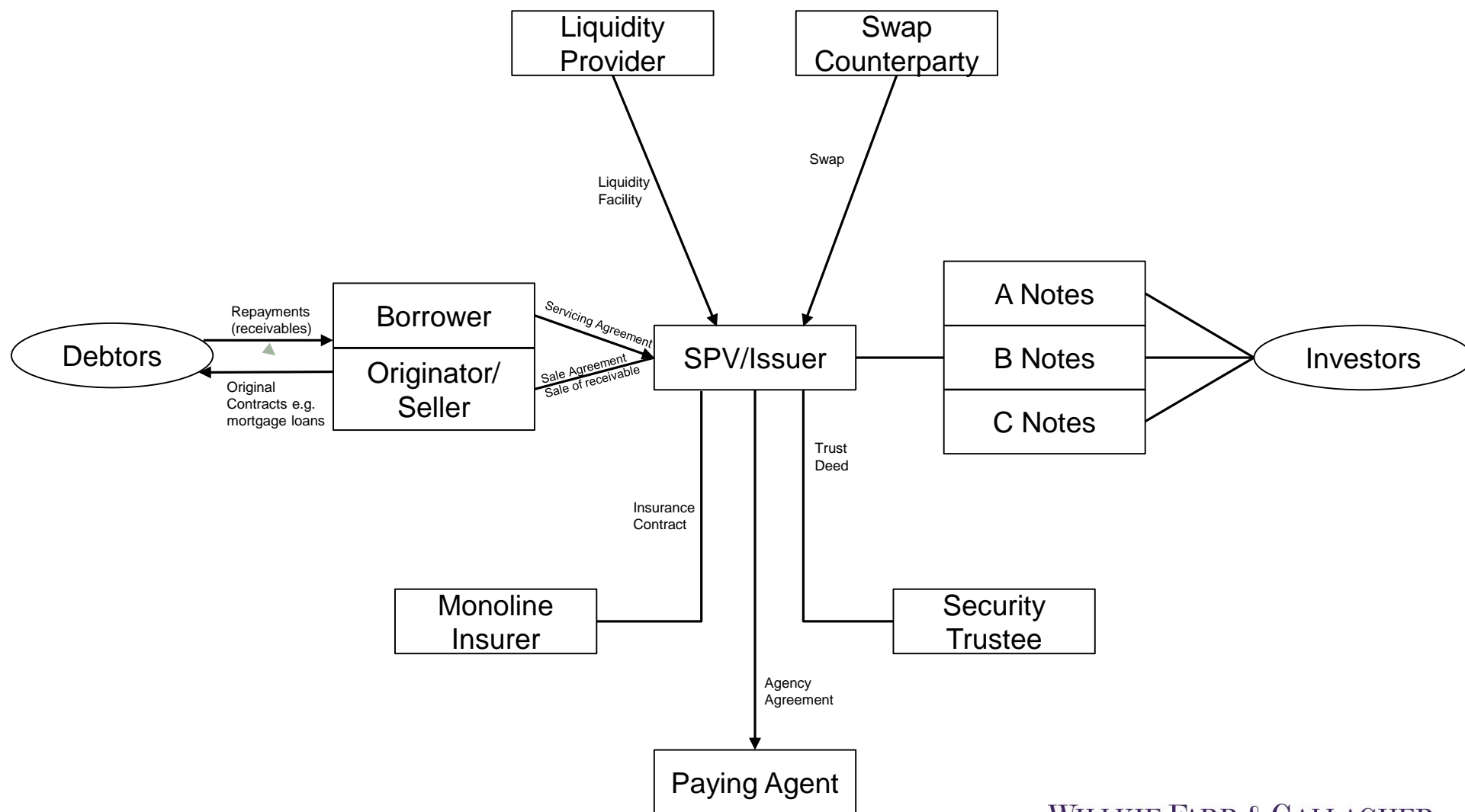
# What is securitisation?

‘securitisation’ means a transaction or scheme, whereby the credit risk associated with an exposure or a pool of exposures is tranching, having all of the following characteristics:

- (a) payments in the transaction or scheme are dependent upon the performance of the exposure or of the pool of exposures;
- (b) the subordination of tranches determines the distribution of losses during the ongoing life of the transaction or scheme;
- (c) the transaction or scheme does not create exposures which possess all of the characteristics listed in Article 147(8) of Regulation (EU) No 575/2013. [*SPV created to finance physical assets*]

Article 2 (1) The Securitisation Regulation  
(EU) 2017/2402

# “Classic” Securitisation Structure



# The evolution of securitisation

## Some applications of securitisation technology

### UK:

- VIF
- Equity Release
- Matching Adjustment repackaging structures
- Asset/longevity

### US:

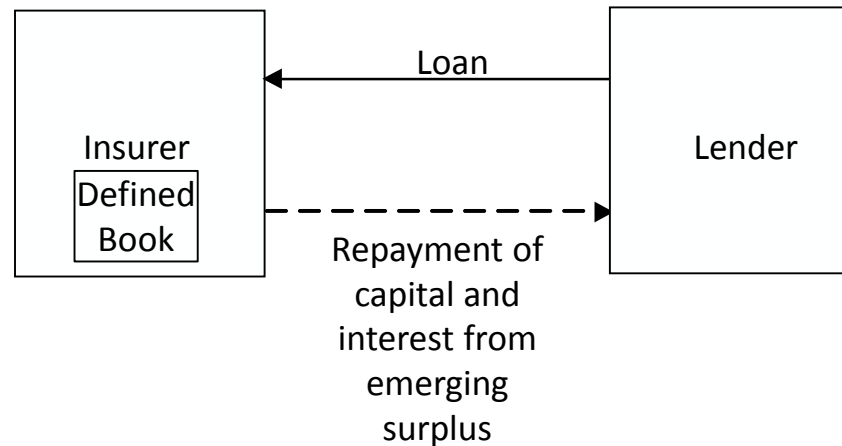
- Life settlements
- Structured settlements/lottery
- Triple - X

### General:

- Commission financing
- Mortality cat bonds

# The evolution of securitisation

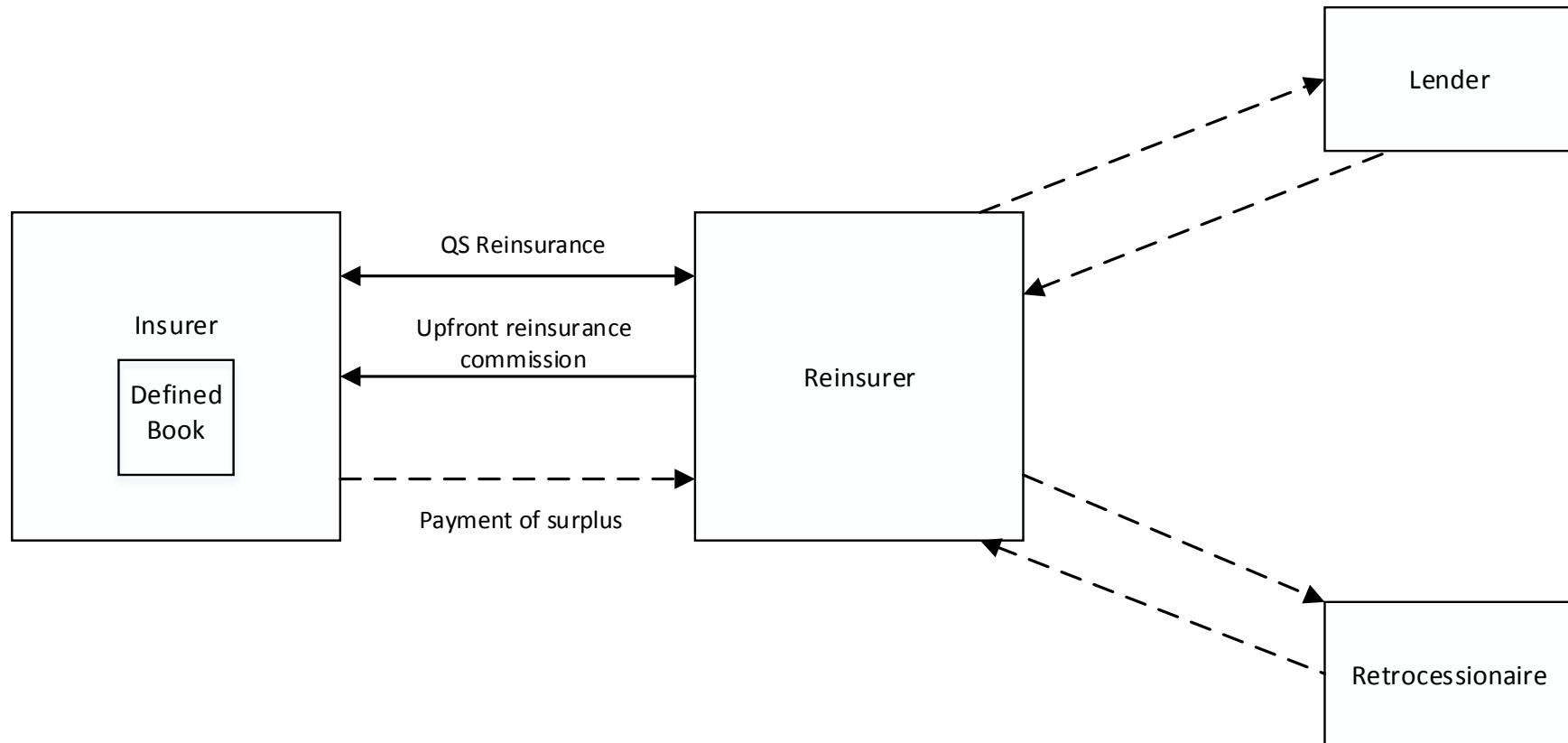
## Value-in-force (VIF) monetisation – contingent loan





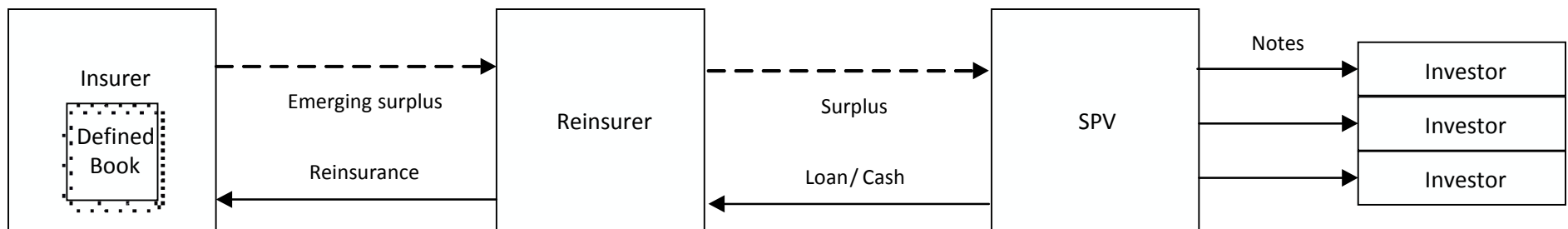
# The evolution of securitisation

## Value-in-force (VIF) monetisation – quota share reinsurance



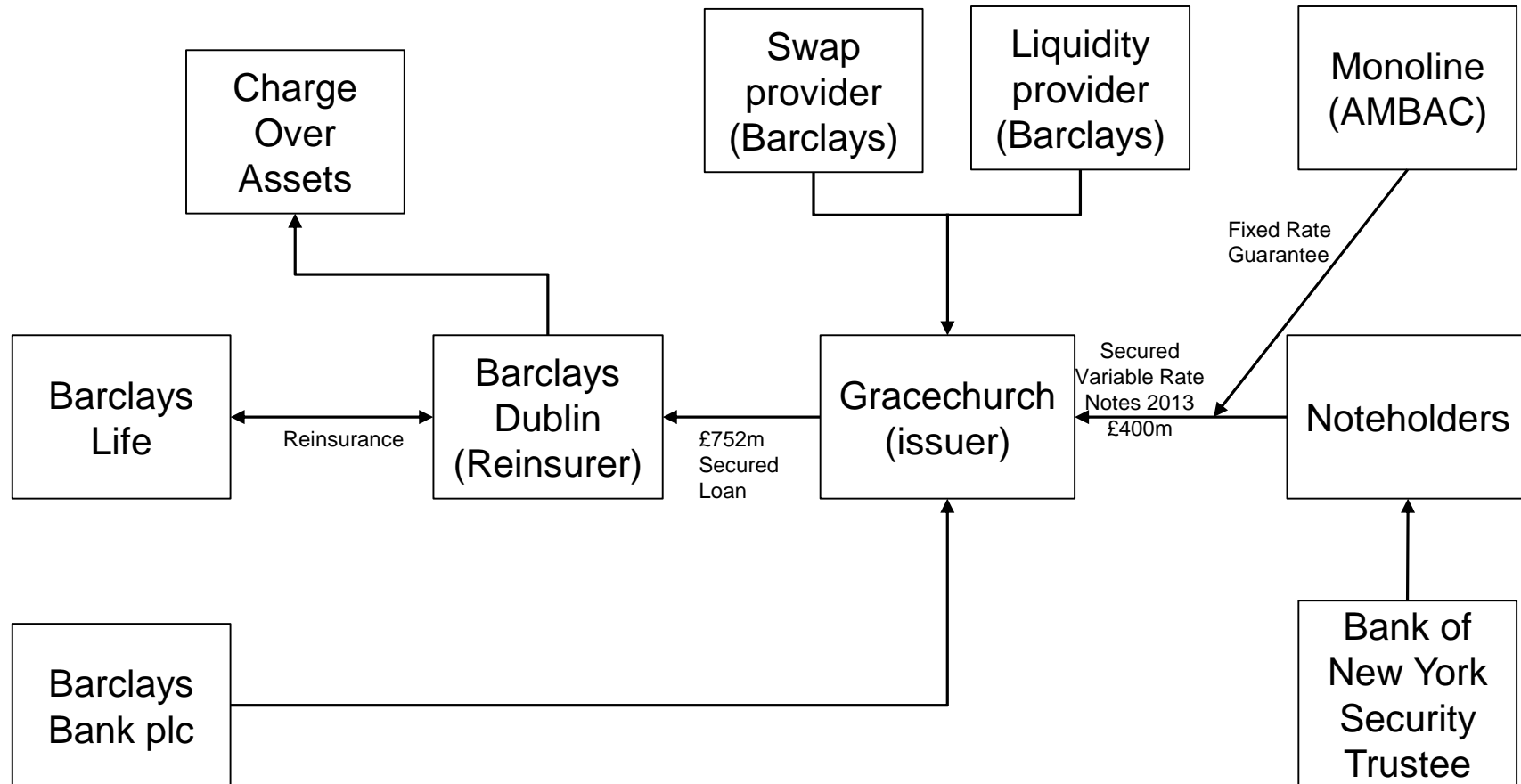
# The evolution of securitisation

## Value-in-force (VIF) securitisation – capital markets



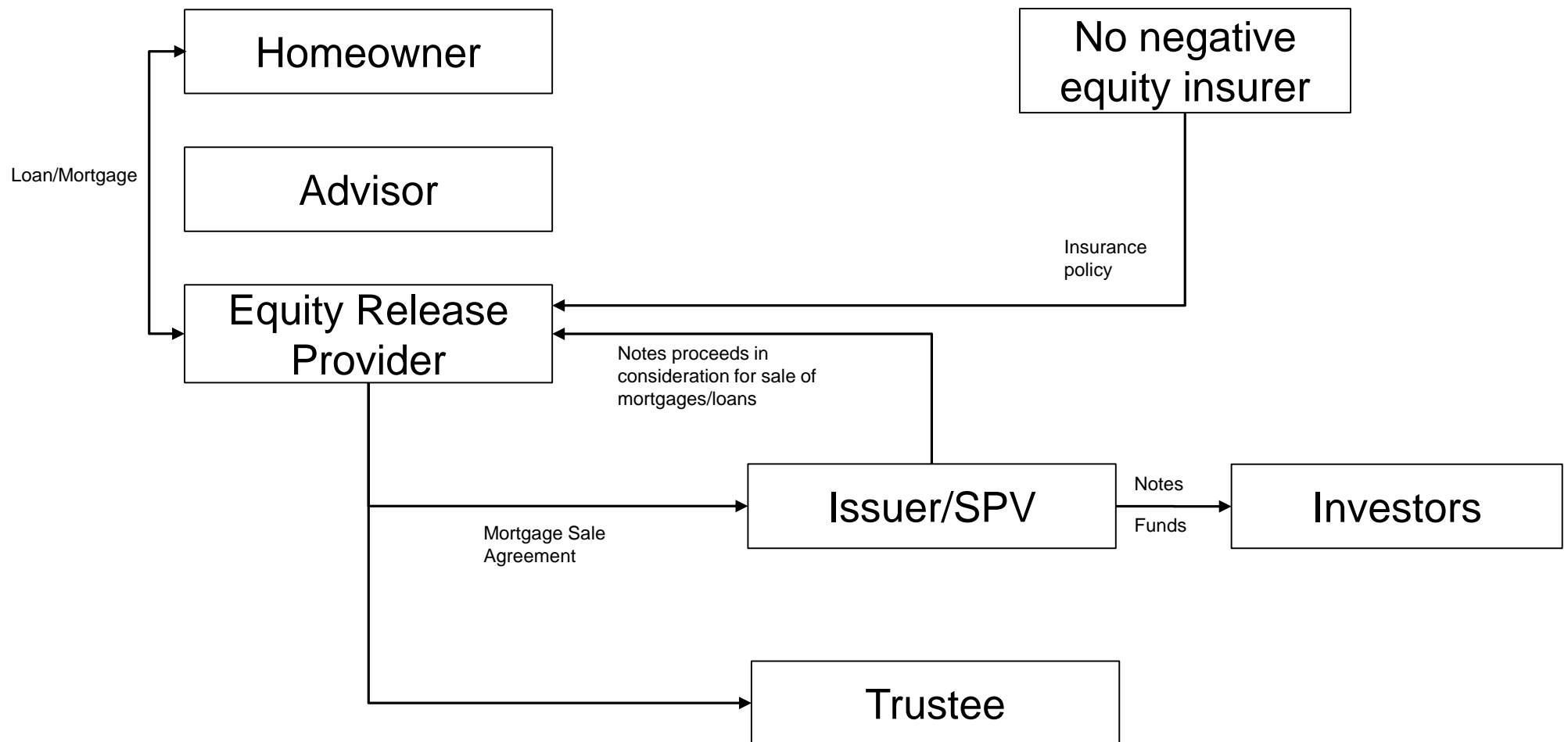
# The evolution of securitisation

## A classical VIF Structure: Gracechurch



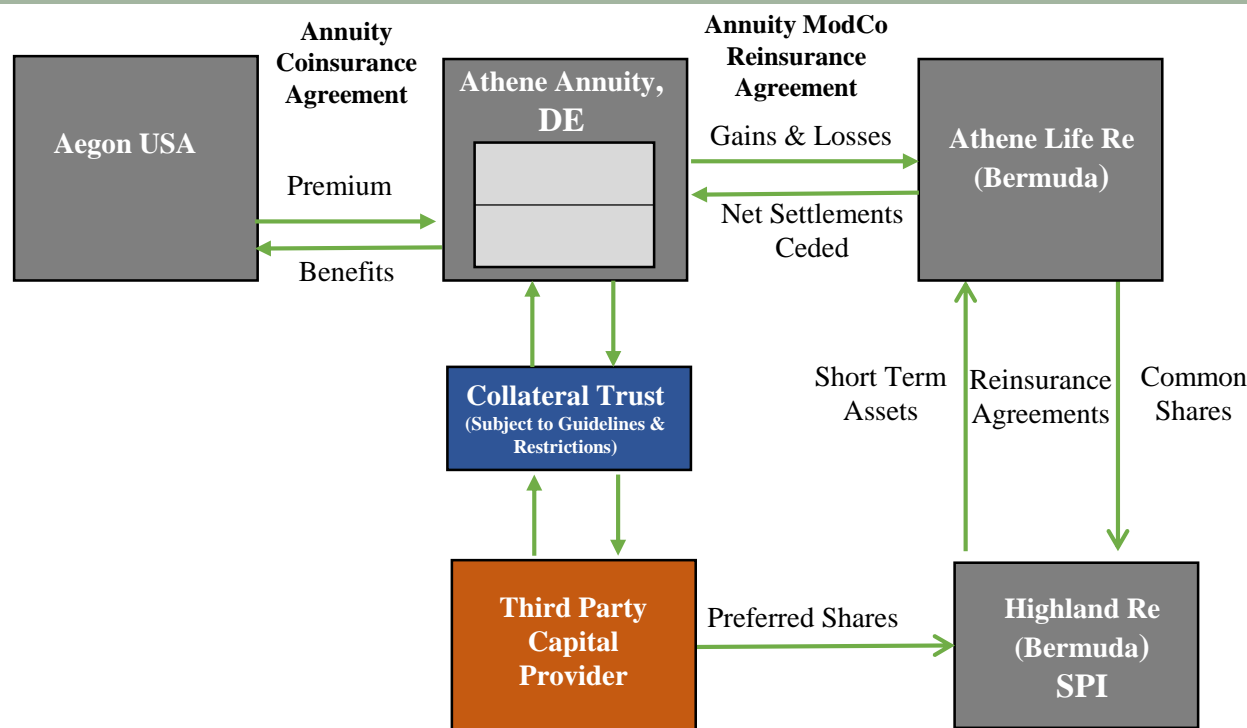
# The evolution of securitisation

## Equity Release Mortgage Securitisation



# The evolution of securitisation

## Short-term asset/longevity risk transformation case study – Highland Re\*



**Transaction Highlights:** Innovative fixed annuity reinsurance transaction using special purpose insurer (SPI) and first-to-pay structure.

**Liabilities:** Gross liabilities of \$3bn ceded by AA- rated US-based insurance company split between fixed annuities streams.

**Structure:** Aegon USA coinsured block to Athene Annuity Delaware. Athene Annuity Delaware did modified co-insurance ("ModCo") to ALRe. Retrocession agreement between ALRe and Highland Re. ModCo is a type of reinsurance whereby the cedant retains the reinsurance premium and also retains the policy reserves on its financials. The reinsurer does not post any reserves on its financials. The withheld premium is allocated to a "ModCo" account and is invested for the reinsurer's benefit. The balance of the ModCo account is adjusted quarterly to equal the statutory reserves as at the quarter-end. Increases are charged to the reinsurer and decreases are for the reinsurer's benefit.

**Highland Re:** SPI subsidiary of ALRe, 100% of capital provided by Third Party.

**Capital Support:** Preferred shares issuance equal to 7% of liabilities reinsured to Highland Re. Modest amount of common shares issued.

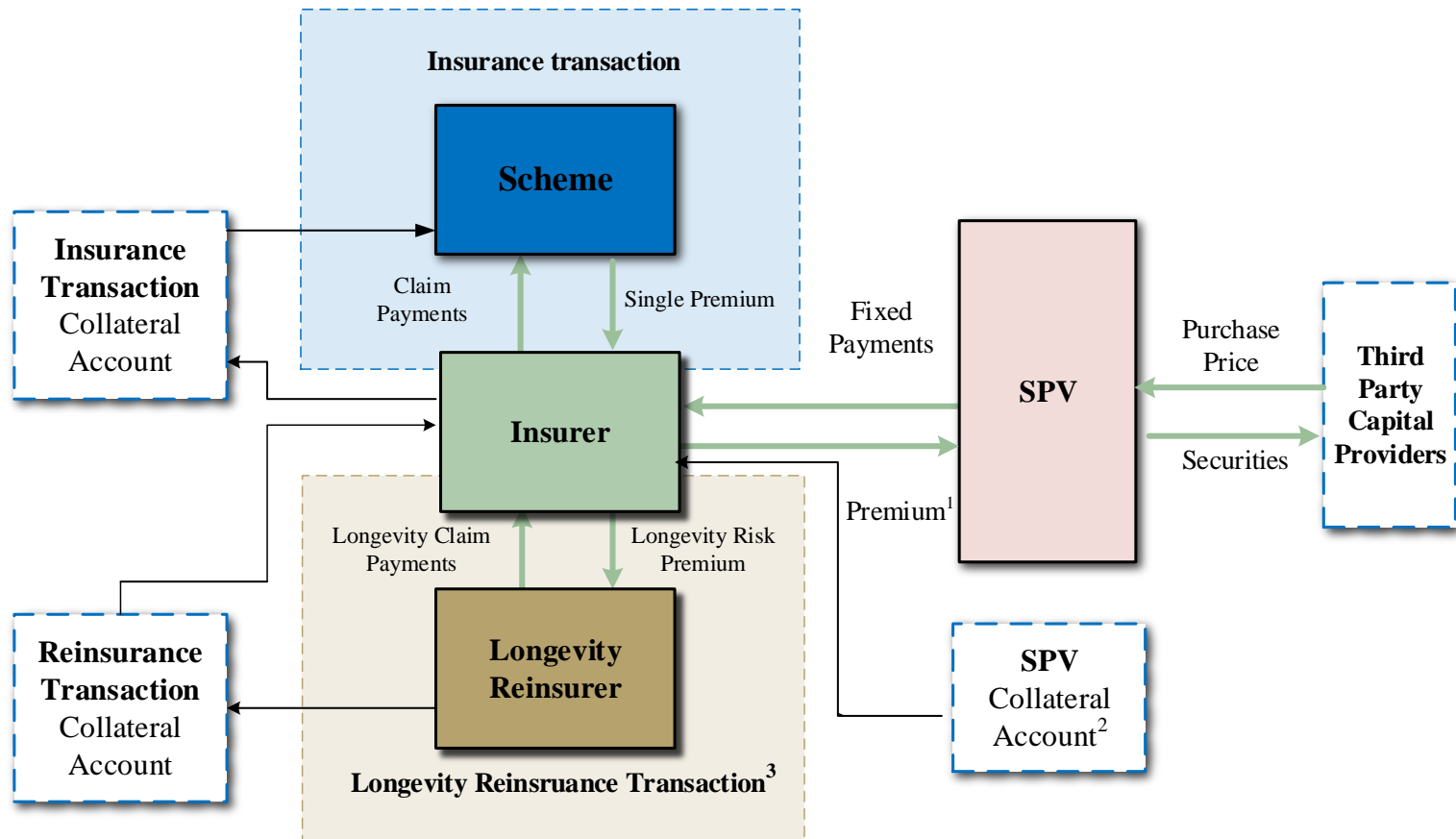
**Highland Re:** First-to-pay in \$1.4 billion in benefit payments.

\* Transaction details derived from publicly available sources

**WILLKIE FARR & GALLAGHER<sub>LLP</sub>**

# The evolution of securitisation

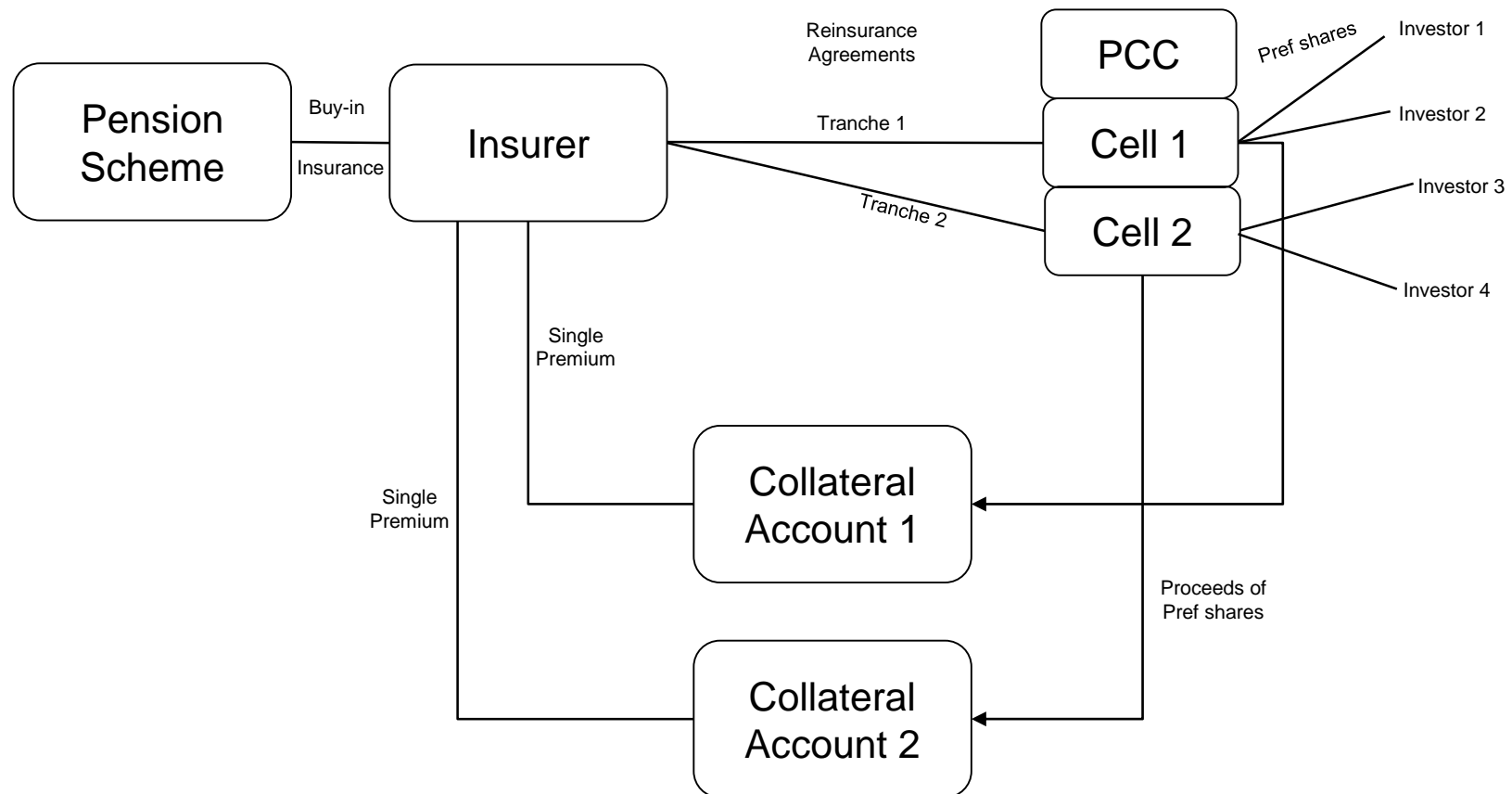
Asset/Longevity risk transfer structure – using a SPV/third party capital



1. Premium amount will equal excess investment returns plus an agreed spread.
2. Initially funded by the proceeds of the securities issued by the SPV.
3. Alternatively, the Sidecar could purchase longevity reinsurance.

# The evolution of securitisation

## Asset/Longevity risk transfers using UK PCC transformer



# Questions?