



# **LIFE SETTLEMENTS: INTERNATIONAL MARKETS**

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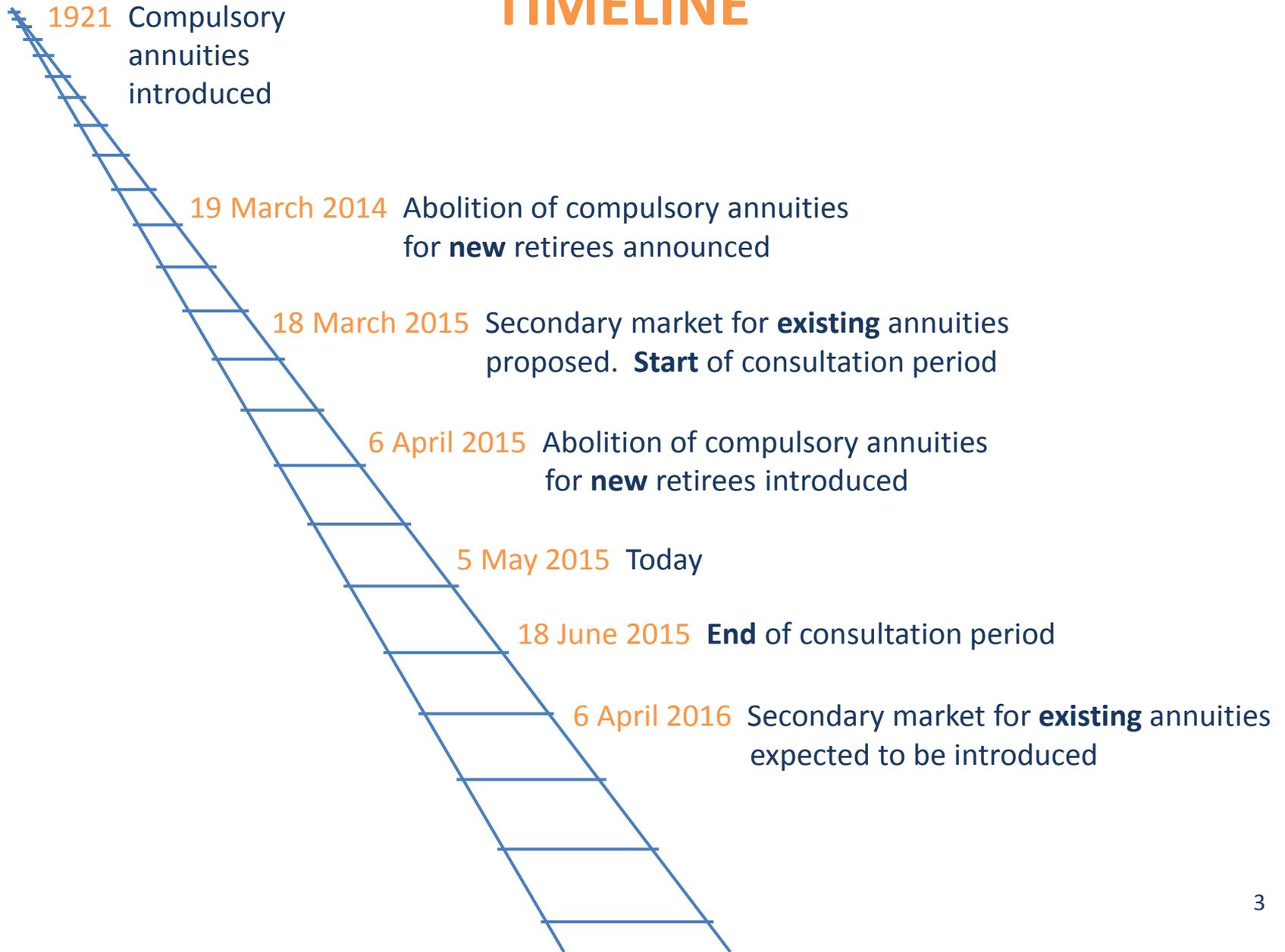
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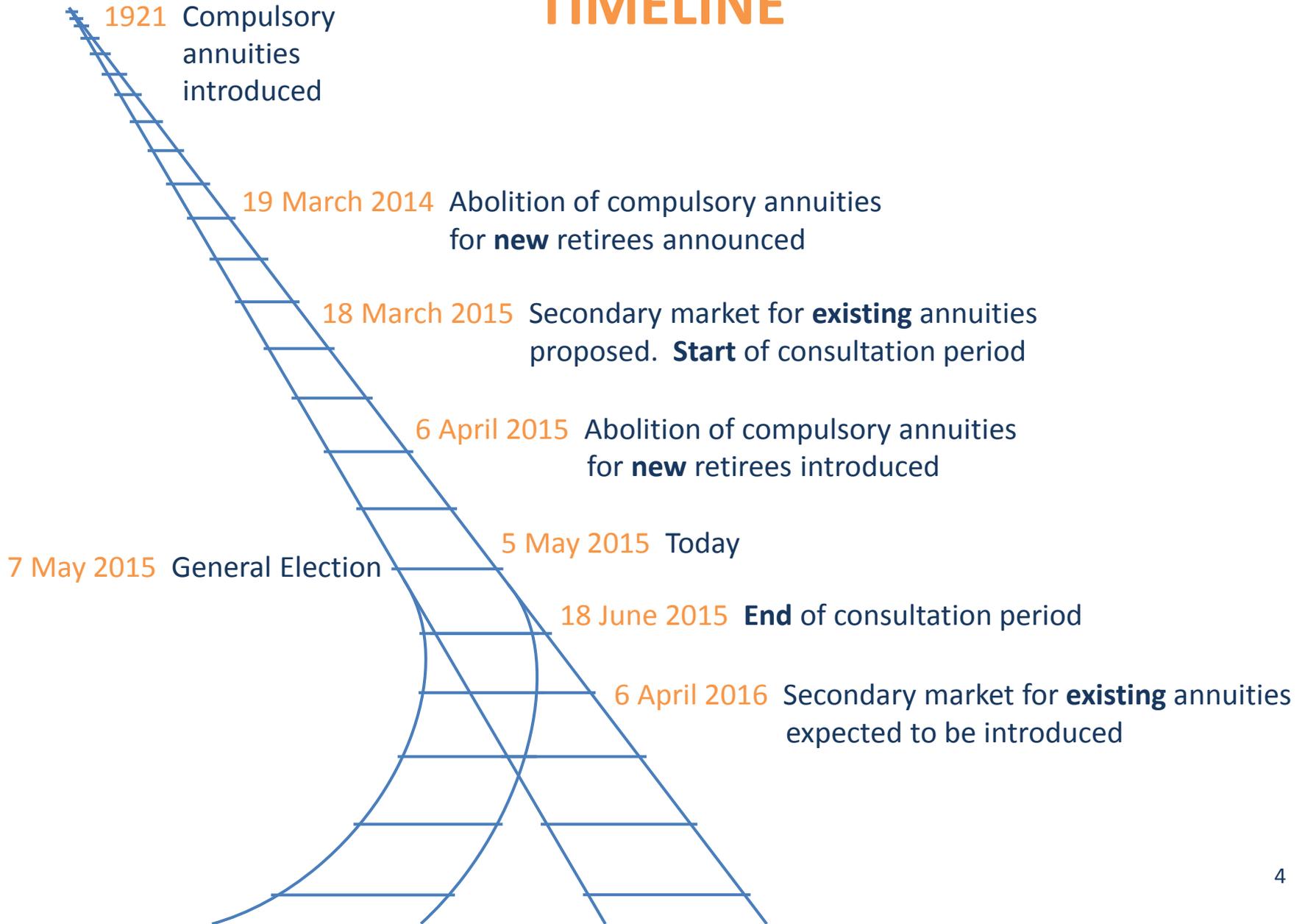
# OUTLINE

- UK Secondary Annuity Market
  - Timeline
  - Why Do We Care?
  - Why Should You Care?
  - Consultation: The Government's and ELSA's Positions
  - Some Challenges
- Other News from Europe and ELSA

# TIMELINE



# TIMELINE



# WHY DO WE CARE?

- A major consumer-oriented news story in the UK, with intense media coverage
- A significant potential market: \$25 billion<sup>1</sup>
- Specific arbitrage opportunities, e.g.:
  - EU regulation prohibits gender-based pricing
  - Enhanced, i.e., medically underwritten, annuities represented just 2% of the total in 2003 and 28% of the total in Q4 2013<sup>2</sup>
- An opportunity for ELSA members to “get in on the ground floor” and apply their existing experience in Life Settlements, Structured Settlements and Traded Endowment Policies in terms of individual underwriting, “direct to consumer” processes, etc.
- An opportunity for ELSA to engage with the UK government, FCA and PRA
- An opportunity to expand ELSA’s remit to cover all European longevity and mortality markets

<sup>1</sup> 6.0m pension annuity policies in payment in 2013 (Association of British Insurers, UK Insurance Key Facts 2014), 17% of existing annuity holders would consider “cashing in” (Tilney BESTINVEST/YouGov survey, 21 April 2015), £27,000 mean nominal pension annuity purchase value 2003-2013 (Association of British Insurers, The UK Annuity Market: Facts and Figures, 17 February 2014), 60% average sale price (Author’s assumption), 0.65 £/\$ (Yahoo! Finance, 1 May 2015)

<sup>2</sup> Association of British Insurers, The UK Annuity Market: Facts and Figures, 17 February 2014

# WHY SHOULD YOU CARE?

- Strong government support draws parallels with, and is encouraging for, the Life Settlement market
- Investors, intermediaries and structures need not be UK-based
- An opportunity to offset existing longevity risk, albeit with significant basis risk

*“In this government’s view, there is no reason to prevent retirees who have already purchased an annuity from selling their right to future income streams for an upfront cash sum if it is right for them.”*

*“Allowing annuity providers to ‘buy back’ their annuity could also result in some consumers falsely believing that they can only use these new freedoms through their existing annuity provider. While this could be partially overcome through clear guidance, this ‘captive market’ could prevent individuals from shopping around to get the best deal, and reduce the incentive on providers to offer the best price.”*

*“Depending on how the market develops, many institutional investors may only want to purchase in bulk and there may therefore be a need for intermediaries to enter the market in order to purchase individual annuities, repackage them, and sell them on to the end investor.”*

# CONSULTATION: THE GOVERNMENT'S AND ELSA'S POSITIONS<sup>1</sup>

	<b>Government's Position</b>	<b>ELSA's Position<sup>2</sup></b>
Holders require providers' consent	Yes	No
Retail investors permitted	No	No
Providers can "buy back" their annuities	No	No
Providers can invest in their own annuities	Not explicitly stated	No
Providers can invest in others' annuities	Not explicitly stated	Yes
Death notification responsibility	Provider	Investor
Provider costs covered by	Holder and/or Investor	Provider
Joint policies included	No	Yes
Sale <sup>3</sup> "tied" to new product purchase	Not considered	No
90% FSCS protection maintained	Open to feedback	Yes, or 100%

<sup>1</sup> The terms holder, provider and investor are used consistently above to represent the three parties in the transaction

<sup>2</sup> ELSA's response is still being prepared and its position on a number of these issues is still under discussion

<sup>3</sup> Technically, the holder assigns the income from their annuity to the investor, rather than sells the annuity to them

# CONSULTATION: THE GOVERNMENT'S AND ELSA'S POSITIONS<sup>1</sup> (CONT'D)

	<b>Government's Position</b>	<b>ELSA's Position<sup>2</sup></b>
IFA advice required	Open to feedback	Yes, > £30,000
IFA advice paid for by	Holder	Holder
Providers offer benchmark "selling <sup>3</sup> price"	Yes	No
Benchmark value derived from a table	Yes	Yes
Holders offered guidance and risk warnings	Yes	Yes
Holders offered rescission period	Not considered	Yes
Minimum number of quotes required	Yes	No
Dependents' consent responsibility	Provider	Investor
Dependents' rights maintained	Open to feedback	No
Holders on mean-tested benefits able to sell <sup>3</sup>	Open to feedback	Yes

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# SOME CHALLENGES

- Unitary size: Mean purchase value 2003-2013 of £27,000 or approx. \$42,000
- Adverse selection
- Lobbying power of annuity providers
- Cost of funding of largest potential investors

# OTHER NEWS FROM EUROPE AND ELSA

- Third ELSA Symposium 24 April 2015
- New structures and products
- ELSA certification initiative
- Second ELSA/BVZL Summit 6 October 2015