LIFE SETTLEMENTS:
INTERNATIONAL MARKETS

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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
1921  Compulsory annuities introduced

19 March 2014  Abolition of compulsory annuities for new retirees announced

18 March 2015  Secondary market for existing annuities proposed. Start of consultation period

6 April 2015  Abolition of compulsory annuities for new retirees introduced

5 May 2015  Today

18 June 2015  End of consultation period

6 April 2016  Secondary market for existing annuities expected to be introduced
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7 May 2015  General Election

5 May 2015  Today

18 June 2015  End of consultation period

6 April 2016  Secondary market for existing annuities expected to be introduced
WHY DO WE CARE?

- A major consumer-oriented news story in the UK, with intense media coverage
- A significant potential market: $25 billion\(^1\)
- 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\(^2\)
- 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

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\(^1\) 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)

\(^2\) 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

<table>
<thead>
<tr>
<th></th>
<th>Government’s Position</th>
<th>ELSA’s Position²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Holders require providers’ consent</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Retail investors permitted</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Providers can “buy back” their annuities</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Providers can invest in their own annuities</td>
<td>Not explicitly stated</td>
<td>No</td>
</tr>
<tr>
<td>Providers can invest in others’ annuities</td>
<td>Not explicitly stated</td>
<td>Yes</td>
</tr>
<tr>
<td>Death notification responsibility</td>
<td>Provider</td>
<td>Investor</td>
</tr>
<tr>
<td>Provider costs covered by</td>
<td>Holder and/or Investor</td>
<td>Provider</td>
</tr>
<tr>
<td>Joint policies included</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Sale³ “tied” to new product purchase</td>
<td>Not considered</td>
<td>No</td>
</tr>
<tr>
<td>90% FSCS protection maintained</td>
<td>Open to feedback</td>
<td>Yes, or 100%</td>
</tr>
</tbody>
</table>

¹ The terms holder, provider and investor are used consistently above to represent the three parties in the transaction
² ELSA’s response is still being prepared and its position on a number of these issues is still under discussion
³ 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 (Cont’d)

<table>
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<tr>
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<th>Government’s Position</th>
<th>ELSA’s Position²</th>
</tr>
</thead>
<tbody>
<tr>
<td>IFA advice required</td>
<td>Open to feedback</td>
<td>Yes, &gt; £30,000</td>
</tr>
<tr>
<td>IFA advice paid for by</td>
<td>Holder</td>
<td>Holder</td>
</tr>
<tr>
<td>Providers offer benchmark “selling³ price”</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Benchmark value derived from a table</td>
<td>Yes</td>
<td>Yes</td>
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<tr>
<td>Holders offered guidance and risk warnings</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Holders offered rescission period</td>
<td>Not considered</td>
<td>Yes</td>
</tr>
<tr>
<td>Minimum number of quotes required</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Dependents’ consent responsibility</td>
<td>Provider</td>
<td>Investor</td>
</tr>
<tr>
<td>Dependents’ rights maintained</td>
<td>Open to feedback</td>
<td>No</td>
</tr>
<tr>
<td>Holders on mean-tested benefits able to sell³</td>
<td>Open to feedback</td>
<td>Yes</td>
</tr>
</tbody>
</table>

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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