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Longevity Risk Management Solutions

STATUS: Preliminary research underway, late 2009

LEAD RESEARCHER: Christopher Kampa, ISI Director of Research and Project Development

ISI OVERSIGHT: Paul Siegert, ISI President and CEO

PROJECT DESCRIPTION: The management of risk has received a renewed focus in today's economic climate. Investors are searching for alternative asset classes in which to invest but are only interested in doing so if they can understand the risks involved and how to properly manage and insure the associated risks. This has given rise longevity/mortality as a dynamic new asset class.

The notion of investing in longevity/mortality has been established in Europe for many years and is emerging rapidly in the United States. Because of the social economy that exists in Europe many of its citizens are covered by a pension scheme. This has given actuaries and investors access to a substantial amount of data on which to design longevity-based products for the purpose of insuring, hedging, managing, and investing in longevity/mortality risk. Thus, Europe may serve as a guidepost to longevity/mortality market developments in the United States.

Many institutions in the United States and abroad have exposure to longevity/mortality risk on their balance sheets. The traditional entities with exposure to such risk are insurance companies, pension funds, and annuity writers. However, there are many more subtle exposures that are not universally recognized. These range from granting credit at the institutional level to estate planning on the part of an individual.

Management of longevity/mortality risk has been sparse and limited only to the insurance markets. For this asset class to mature as a robust platform for managing longevity/mortality risk it needs to graduate from the insurance market to the capital market. Broader and more comprehensive techniques and structures are needed for hedging and transferring of longevity risk, which will enable more investors to gain exposure to an asset class with low correlation to traditional market securities.

SCOPE/METHODOLOGY: The concept of longevity investment in the United States is yet to be universally defined. Traditional concepts of longevity/mortality and its monetization need to be redefined with new ideas on how to invest in such an asset class. An evaluation of current investment structures in Europe may serve as a base for such a notion, but should not be limited to the current breadth of investment products. Europe's current investment structure includes instruments such as longevity bonds and mortality swaps. In addition to present structures, this project seeks to identify new methods for investing in longevity while providing frameworks for structuring such investments. It will examine the risks involved and suggest how different parties can optimally manage the risks.

RESEARCH DATA: Academic Journals, Promotional Materials, Media Reports, PhD reviews, Professional Interviews

TARGET BENEFITS/RESULTS: The project expects to propose actionable steps of attracting capital market participants into defined structures.

TIMELINE: Initial Research: 4-6 months; Expert Opinion: 2-3 months; Culmination of findings: 1-2 month

BUDGET: \$90,000

OWNERSHIP OF DATA AND RESULTS: The Insurance Studies Institute will have full ownership of the deliverable and the data collected. Collaborators will share in rights to the deliverables.