

Track A: Life Insurance

3:45 pm | Capital Markets for the Life Insurance Industry

Moderator:

Jim Toole, FSA, CERA, MAAA, Managing Director, Global Insurance Services Practice, Forensic and Litigation, **FTI Consulting**

Speakers:

Alex Cowley, Managing Director, Insurance Solutions Group, **UBS Securities LLC**

John K. McCarroll, Vice President & General Counsel, **Q Capital Strategies**

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Capital Markets for the Life Insurance Industry

Alex Cowley

Managing Director

Insurance Solutions Group

December 7, 2011

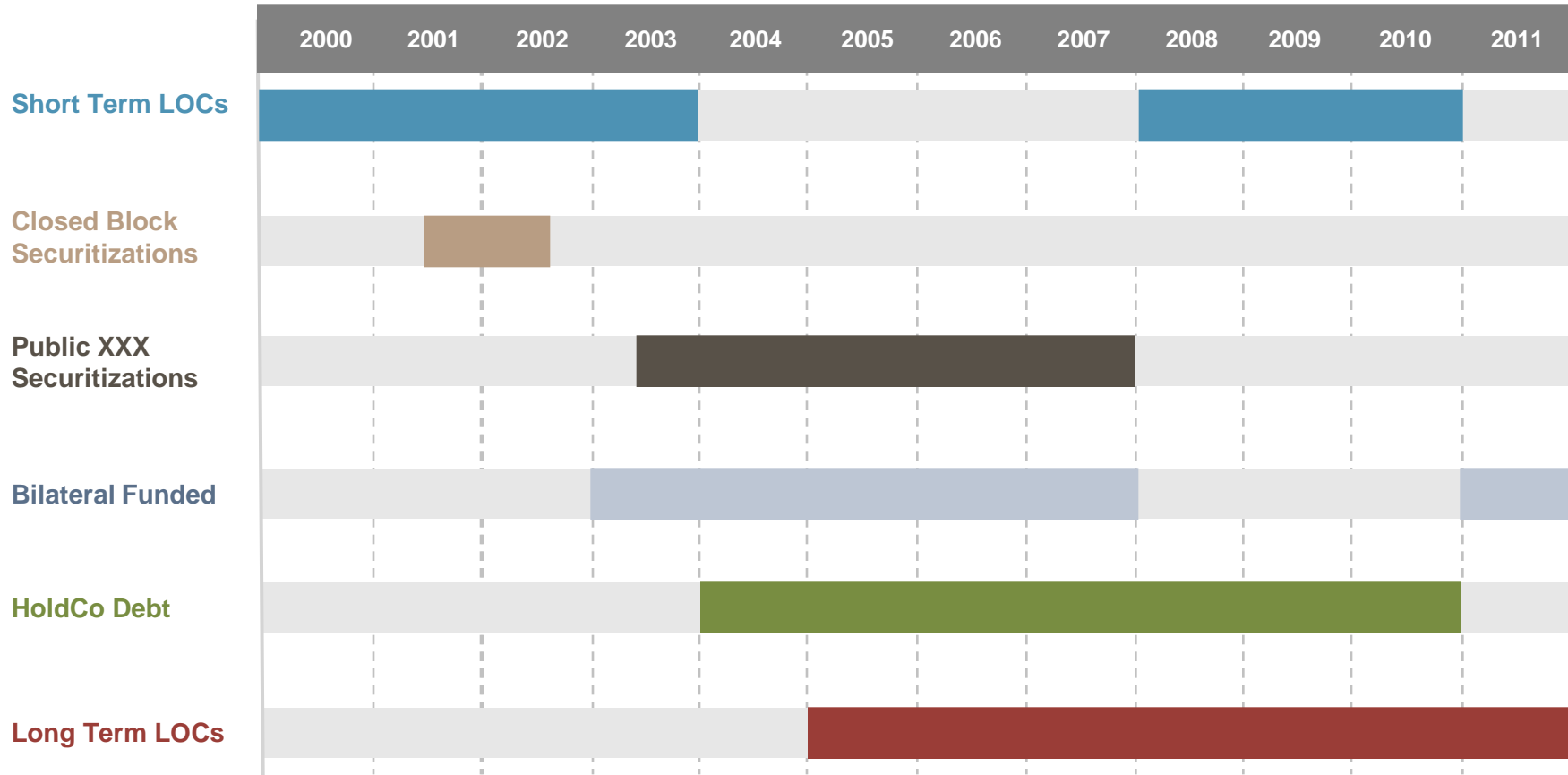
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Executive Summary

- The Past
- The Present
 - Transactions
 - Regulatory Developments
 - Rating Agencies
- The Future

The Past



The Present – Transactions Overview

- Reserve Financing Transactions (Closed Block, XXX and AXXX)

- 2011 anticipated volume \$6-8bn
- Both LOC and private bilateral securitization



UK Longevity (~£5bn in 2011)



Extreme Morbidity (\$150mm in 2011)



Extreme Mortality (\$180mm in 2011)



Embedded Value

The Present – Regulatory Overview

- Use of Captives under review by NAIC Working Group
- Actuarial Guideline 38 under review by NAIC Working Group
- Principle-based reserving continues to be a work-in-progress
- Federal Insurance Office to comment on insurance regulation
- Changes to Credit for Reinsurance Model Law

The Present – Rating Agency View

- S&P Operating Leverage treatment requirements:
 - Minimum of 8 year tenor for XXX transactions
 - Minimum of 15 year tenor for AXXX transactions
- Moody's Approach:
 - LOCs excluded from financial and operating leverage analysis
 - Funded transactions included within total leverage

The Future

- Development of private structured solutions
 - More bilateral transactions
 - Higher sophistication (e.g., non-recourse and longer tenors)
 - Limited capacity in the banking market
 - Private securitization transactions

- Long-term development of public structured solutions
 - Public securitization transactions not expected in near future

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Capital Markets for the Life Insurance Industry

Paul Puleo, Head of Debt & Solutions Coverage - Financial Institutions

December 7, 2011

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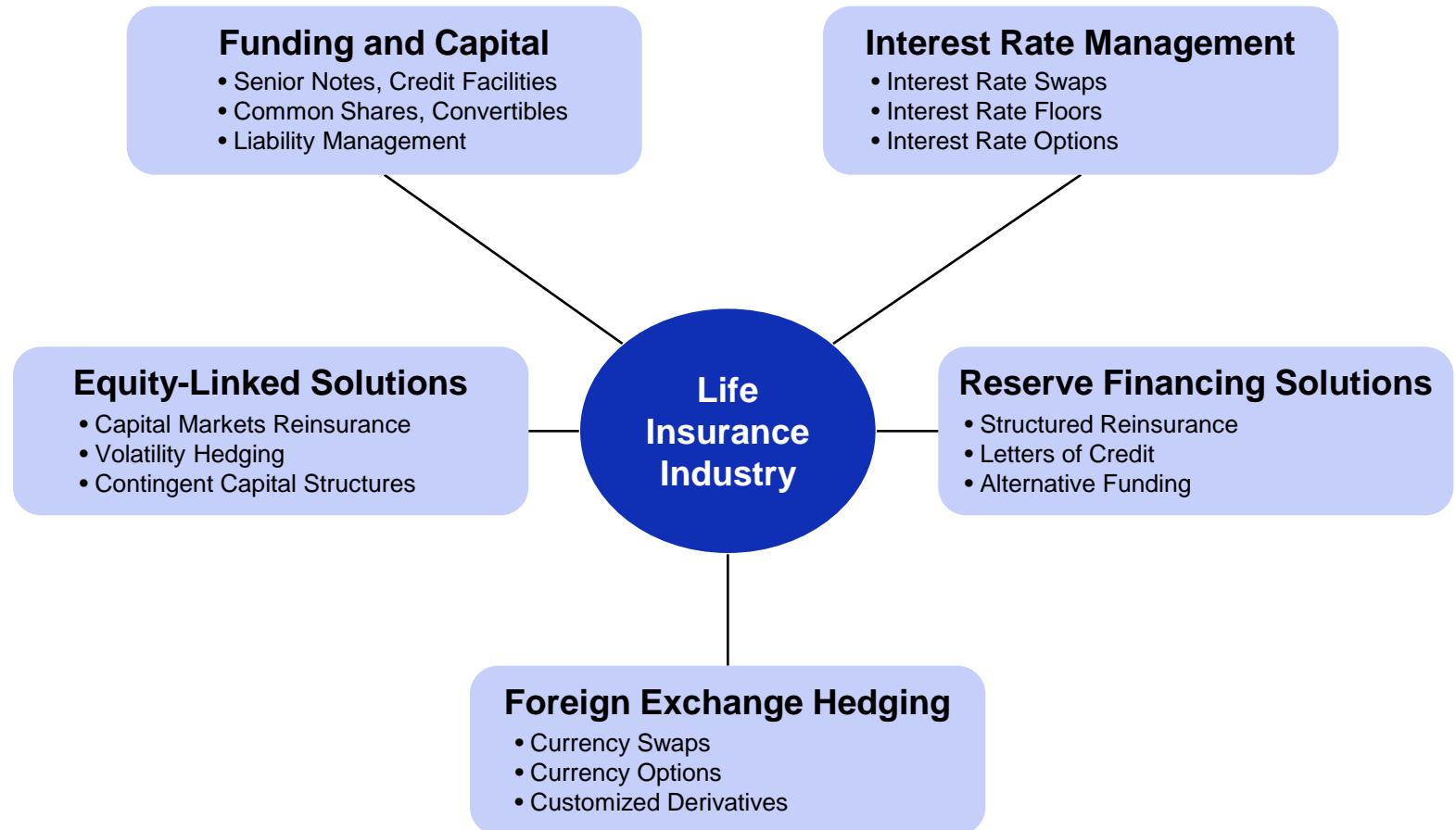
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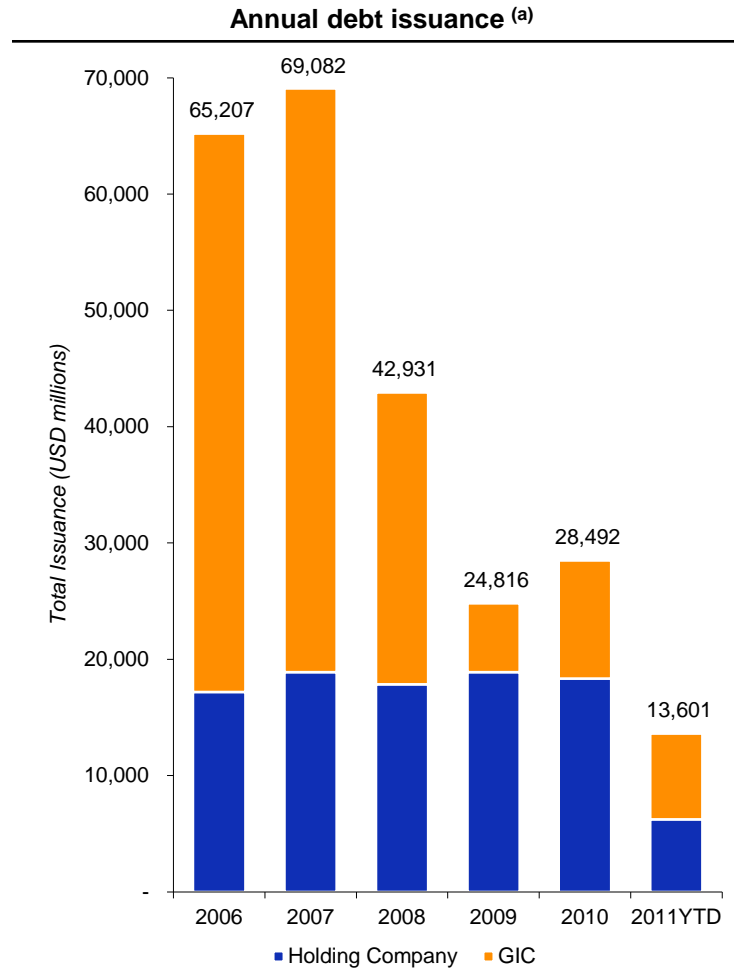
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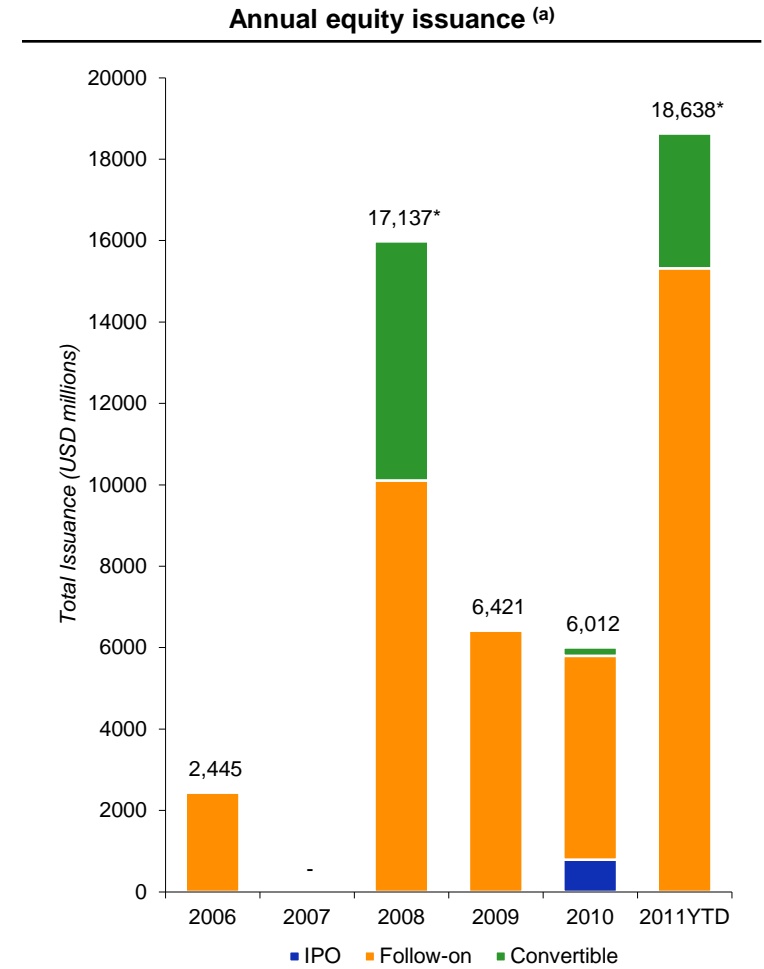
The life insurance industry regularly accesses the capital markets through a wide array of products



The capital markets are a proven source of funding and capital for the life insurance industry



(a) Includes certain multiline insurers
Source: Bloomberg, Deutsche Bank

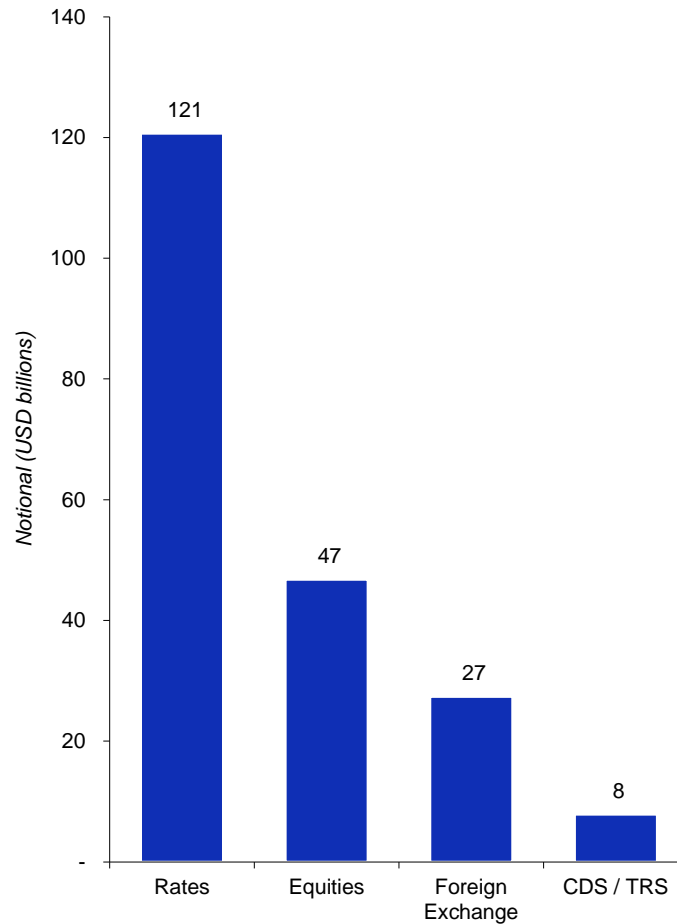


(a) Includes certain multiline insurers
* Includes AIG issuance of \$13.4bn (2008) and \$8.7bn (2011)
Source: Dealogic, Deutsche Bank

The life insurance industry has been a significant user of the derivatives market

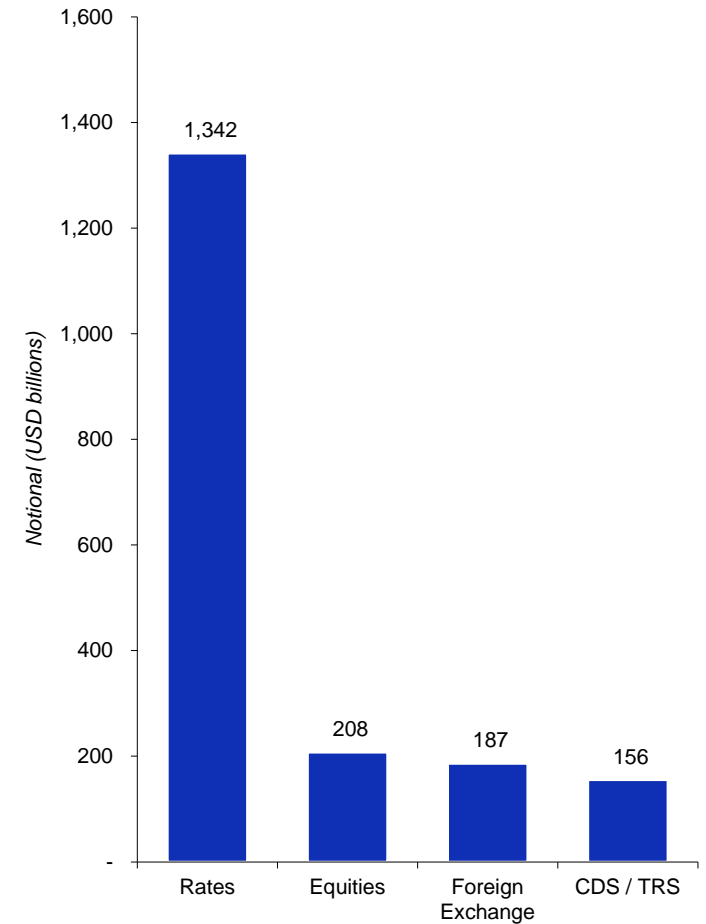


1H 2011 Derivative Transactions (a)(b)



(a) Aggregate transactions across 19 leading North American insurers
 (b) 2011 trades do not include unwinds of existing trades
 Source: Bloomberg, SNL, Deutsche Bank

Outstanding derivatives^(c) (notional as of year-end 2010)

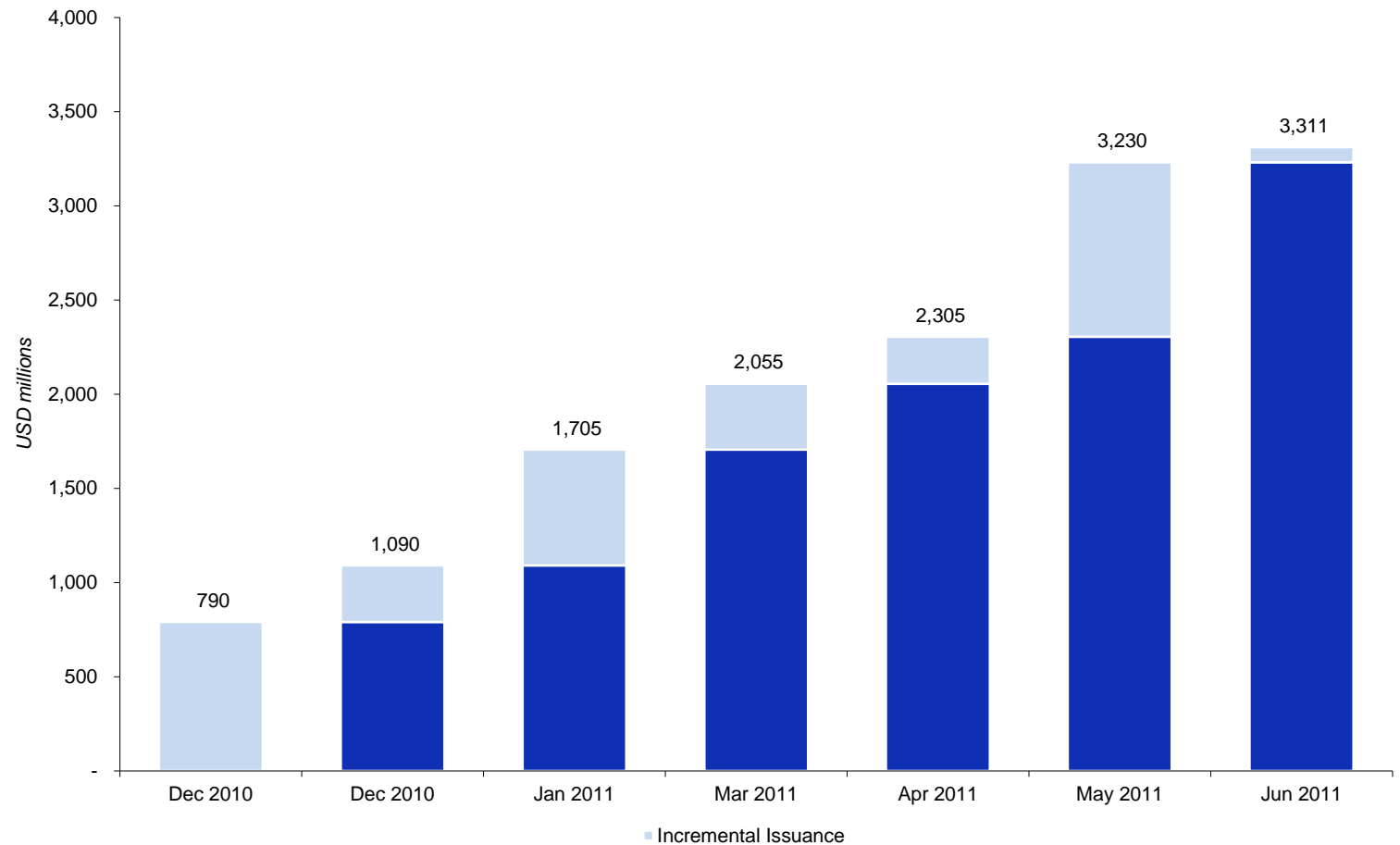


(c) Aggregate exposure across 19 leading North American insurers
 Source: Bloomberg, SNL, Deutsche Bank

Life insurers have turned increasingly to the capital markets for their reserve financing needs



Publicly disclosed reserve and embedded value financing transactions (September 2010 – September 2011)



Source: Milliman

The life insurance industry is expected to make extensive use of the capital markets in 2012



Several key themes are expected to drive the life insurance industry's activity across the capital markets in 2012

Funding and Capital	<p>A low yield environment will heighten the focus on opportunistic/pre-financing and liability management</p> <p>Industry valuations may drive a push to explore strategies to return capital to shareholders</p> <p>Insurers may cautiously re-enter 'spread-lending' businesses given greater availability of capital and increased risk appetite</p>
Risk Management	<p>Variable Annuity exposures will continue to be a top industry/investor focus driving increased hedging activity</p> <p>A low interest rate environment will force insurers to seek asset-liability management solutions and strategies to enhance investment yields</p>
Structured Solutions	<p>The life insurance industry's need for excess reserve financing will make 2012 an active year for transactions</p> <p>Limited capacity in the bank market will make it necessary for insurers to seek alternative / bilateral structured solutions</p>

The Life Settlement Investment From an Insider's Perspective: Where It Has Been and Where It Is Going



John K. McCarroll, Vice President & General
Counsel, **Q Capital Strategies**

1. WHERE THE LIFE SETTLEMENT INVESTMENT HAS BEEN

a) RAMP UP PERIOD- APPROX. 2004-2008

- **TYPE OF INVESTORS**

- Investment Banks
- Commercial Banks
- Insurance Companies
- Hedge Funds

- **TYPES OF STRUCTURES**

- Warehouse Facilities
- Closed End Funds
- Bigger the Better
- 3 Billion Face Value Approx. Settled in 2004 Increased to Approx. 15 Billion in 2008

- **HOPES OF SECURITIZATION**

- \$ 70 Million Dollar Moody's Rated Offering in 2004
- Buying Parameters, Documentation, Portfolio Diversification all for this Goal

- **SIGNIFICANT INCREASE IN REGULATION**

- Regulated States Went From under 10 to almost 50
- Existing Anti-Fraud Laws Strengthened
- Companies Self-Regulated More Rigorously Than Regulation

1. WHERE THE LIFE SETTLEMENT INVESTMENT HAS BEEN

b) MARKET SLOW DOWN- LATE 2008-2011

- **LIFE EXPECTANCIES CHANGES**
 - Change in Mortality Tables leads to Longer Life Expectancies
- **INSURABLE INTEREST ISSUES**
- **ECONOMIC CRISIS**
 - Fewer Institutional Investors
 - 8 Billion Dollars of Face Value Settled in 2009

2. WHERE IS THE INVESTMENT HEADED IN 2012 AND BEYOND

a) INVESTORS SUCH AS

- Pension Funds
- Family Offices
- Insurance Companies
- Accredited Investor Individuals

b) STRUCTURES SUCH AS

- Warehouse Lines?
- Retail Funds?
- 2012 Securitizations?

c) CHARACTERISTICS OF THE INVESTORS

- Long-Term Outlook
- Reasonable Return Expectations
- Quality over Quantity
- Compliant and Regulatory-Focused partners with emphasis on transparency and disclosure of risks
- Suitable