

PRESS RELEASE

LLMA launches proposed longevity index framework

LONDON, 23 August: The Life & Longevity Markets Association (“LLMA”) announced today its proposal for a standardised framework for longevity indices. The LLMA has published its proposed framework on its website – www.llma.org – and solicits market participants’ feedback, before finalising and adopting the framework in early autumn.

The purpose of this framework is to provide a consistent and transparent set of standards for developing, producing and publishing longevity indices that market participants can use to facilitate longevity transactions. This framework is applicable for public longevity indices based on national population longevity, as well as customised proprietary indices developed for specific annuity portfolios or pension plans.

The framework, which all market participants are encouraged to adopt, will bring greater standardisation to the longevity market, enabling pension plans and insurers to execute longevity hedges with greater certainty over shorter timescales.

Key elements of the proposed LLMA Longevity Index Framework include a set of principles on which all longevity indices should be based and a set of guidelines for the methodology of the index. The index principles lay out the important features that any longevity index must have to be relevant for the longevity risk transfer market. The methodology guidelines provide a template for creating both public and proprietary longevity indices consistent with these principles.

The LLMA Longevity Index Framework has been designed to facilitate the development of longevity indices which can be used in longevity hedging transactions. Indices can be developed for different pools of lives including, but not limited to, the national populations of countries, populations of annuitants, populations of pensioners and other customised pools of lives.

Once the framework is finalised, the LLMA intends to publish longevity indices based on the framework.

Guy Coughlan, Chair of the LLMA Technical Committee, spokesperson for the LLMA and Managing Director, J.P. Morgan commented:

“The LLMA proposal is a significant milestone in the creation of a robust and efficient longevity marketplace. We believe that the availability of a standardised approach to longevity indices – both public and private – will help to encourage the development of a healthy, liquid traded market in longevity risk transfer, which is the ultimate aim of the Association. This standardisation will foster much-needed consistency in this area, providing greater comfort to first-time counterparties and improved efficiency in the execution of these transactions. We look forward to receiving feedback from market participants on this proposed framework”

The consultation period on the proposed framework, which can be downloaded at www.llma.org, will run until 4 October 2010. Feedback should be emailed to consultations@llma.org.

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About the LLMA

The Life and Longevity Markets Association ('LLMA') is a non-profit organisation founded and funded by members, these being AXA, Deutsche Bank, J.P. Morgan, Legal & General, Morgan Stanley, Pension Corporation, Prudential PLC, RBS, Swiss Re and UBS. It aims to promote the development of a liquid traded market in longevity and mortality-related risk. The association supports the development of consistent standards, methodologies and benchmarks to help build a liquid trading market, of the type that exists for Insurance Linked Securities (ILS), and other large trend risks like interest rate and inflation.

www.llma.org

Definition of a Longevity Index

The LLMA defines a longevity index as a body of data relating to the mortality, survivorship and life expectancy of a specified group of individuals, calculated according to robust and well-defined algorithms and processes.¹

¹ A single longevity index is defined to include a collection of data relating to different metrics (e.g., mortality rates, survival rates, life expectancies) applied to a group of lives and various subgroups of those lives (e.g., subgroups by age, gender, geography, socio-economic class, etc.). It is also useful to clarify the difference between a rate index (i.e., an index of observed rates) and a price index (i.e., an index of observed prices of securities or derivatives). Most indices in the financial world, e.g., the S&P 500 or the MSCI family of indices, are of the latter kind. A longevity index is an index of the former kind, i.e., a rate index of observed mortality rates, survival rates, life expectancies, etc, in an analogous way to LIBOR being a rate index of short term interest rates.