

PRESS RELEASE

LLMA launches a suite of documents to further standardisation of the longevity market

LONDON, 1 November: The Life & Longevity Markets Association (LLMA) today launches a series of technical publications that bring the creation of a longevity market a step closer. For the first time there is now a publicly available market-standard approach to the pricing of longevity exposures and the definition of longevity risk transfer instruments.

This standardisation will facilitate the development of a liquid traded market in longevity risk transfer. These LLMA standards will encourage greater consistency and the adoption of best practice across this market, thereby providing greater comfort to first-time counterparties and reducing the time spent on due diligence for longevity transactions.

The publications consist of a general “Longevity Pricing Framework”, together with a series of six documents describing two specific longevity hedging instruments that include technical descriptions, pricing spreadsheets and termsheets. They have been produced by the LLMA with input from specialists from each of the member firms and so reflect the combined expertise of the insurance, re-insurance and investment banking industries.

The “Longevity Pricing Framework” provides a standard approach with which market participants can calculate benchmark prices for longevity exposures and hedging instruments for the purposes of comparison and communication. The other documents provide clear descriptions of two specific instruments used for longevity risk transfer.

The new suite of documents – the general pricing framework, as well as the specific instrument technical descriptions, termsheets and pricing spreadsheets – can be downloaded from the LLMA website at www.llma.org.

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

“The LLMA is pleased to make these new publications available to the market to promote further standardisation and foster the development of liquidity. Our Technical Workstream has worked hard over several months to create these documents with substantial input from our members, who represent leading active participants in the longevity market.

“Over the nine months since its launch, the LLMA has made tremendous progress on several fronts. In addition to these new documents we have also grown our membership and published for market consultation a longevity index framework, the results of which will be announced shortly.”

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APPENDIX 1: LONGEVITY PRICING FRAMEWORK DETAILS

The LLMA’s *Longevity Pricing Framework* provides market participants with a standard means by which they can calculate and communicate pricing in a clear, transparent and unambiguous manner. The framework is not intended to generate firm prices upon which longevity transactions are executed. Rather it is a framework intended to facilitate a shared understanding of the nature of a particular longevity exposure and a “benchmark price” against which an actual transaction price may be compared. It should also help longevity hedgers compare the pricing of different hedging solutions on a comparable basis. This is the LLMA’s second “framework” publication, the first being the *Longevity Index Framework* the first draft of which was published in August.

APPENDIX 2: TERMSHEETS, TECHNICAL NOTES AND PRICING SPREADSHEETS

The LLMA has also published termsheets, technical notes and pricing spreadsheets for two longevity hedging instruments: the **mortality forward rate** contract, or "q-forward," and the **survivor forward rate** contract, or "S-forward". These instruments represent simple building blocks from which more complex hedging instruments can be constructed. For example, the longevity derivative swaps that have been widely used to date by pension funds and insurers to hedge longevity risk are essentially equivalent to a string of S-forwards with different maturity dates.

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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