Life Securitization

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Topics

• Background

• Rating agency view

• Regulatory view

• Investor view

• The future
Securitization allows access to alternative capital

**Issuance of debt to support a specific risk**

- Typically isolated from other risks
- Via reinsurance to a special purpose insurer ("captive")
- Debt repayment dependent on risk performance
  - E.g. surplus notes issued by the captive
- May include a credit guarantee
  - If captive unable to pay, investor can collect from guarantor
Insurer’s view

- Rating agencies don’t include in debt ratio
- Matching of required funding to actual funding
- Cost, including tax considerations
- Minimize intrusion into risk management
Rating agency view

• Risk isolation
  ➢ E.g. via reinsurance

• Special purpose use of funds
  ➢ No commingling with general account

• De minimis probability of default
  ➢ Extensive modeling
Minimize probability of insurer default

- Appropriate risk identification and disclosure
- Appropriate level of capital
- Appropriate form of capital
- Systemic connection to other risks
In the context of the investor view, the value proposition is framed around yield, duration, and risk, focusing on:

- Positioning of yield relative to alternative investments
  - Higher returns than life insurance debt

- Appropriate duration relative to appetite

- Appropriate understanding of risk profile
  - Particularly tail events
  - Covenants and regulation
The future

• Regulatory concerns

• Investor appetite

• Continued rating agency support
In conclusion

• Life insurance securitization is an important tool in managing capital structure

• May provide an attractive alternative asset class to investors