The New Life Market:
From Survivor Bonds to Life Settlements Securitisation

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The new Life Market is being established to deal with the problem of longevity risk, the tendency to systematically underestimate how long people are going to live. It will do this by helping exposed organisations, such as pension funds and annuity providers, manage longevity risk using longevity-linked products and securitisation

The time is right for the Life Market to succeed because the following four conditions hold:

1. The market must provide effective exposure, or hedging, to a state of the world that is
2. economically important
3. and cannot be hedged through existing market instruments.
4. It must use a homogeneous and transparent contract to permit exchange between agents

We will examine both the demand-side and the supply-side of the Life Market, as well as the key tools needed to quantify longevity risk: mortality indices and mortality forecasting models. We will investigate why certain types of survivor bond have failed to launch, while longevity derivatives, such as longevity swaps, have succeeded.

We end by analysing the barriers that still remain to be overcome – these include design and pricing issues. We are also waiting for governments to acknowledge the critical role they have to play in intergenerational longevity risk sharing.