

Press release

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Joint Forum issues final paper on longevity risk transfer markets

The *Joint Forum* released today its final report on *Longevity risk transfer markets: market structure, growth drivers and impediments, and potential risks*.

Ageing populations pose serious social policy and regulatory/supervisory challenges in many countries. Longevity risk – the risk of paying out on pensions and annuities for longer than anticipated – is significant when measured from a financial perspective. For example, certain estimates of the total global amount of annuity- and pension-related longevity risk exposure range from \$15 trillion to \$25 trillion. At the same time, pension funds are increasingly looking to transfer this risk. The Joint Forum is therefore publishing this forward-looking report on longevity risk transfer markets that makes a set of recommendations to policymakers and supervisors:

1. **Communicate and cooperate:** To reduce the potential for regulatory arbitrage, supervisors should communicate and cooperate internationally and cross-sectorally on longevity risk transfer.
2. **Understand longevity risk exposures:** Supervisors should seek to ensure that holders of longevity risk under their supervision have the appropriate knowledge, skills, expertise and information to manage it.
3. **Assess relevant policies:** To inform their policy towards longevity risk transfer markets, policymakers should review their explicit and implicit policies with regard to where longevity risk should reside. They should also be aware that social policies may have consequences for both longevity risk management practices and the functioning of longevity risk transfer markets.
4. **Review longevity risk rules and regulations:** Policymakers should review rules and regulations pertaining to the measurement, management and disclosure of longevity risk. This will help establish or maintain appropriately high qualitative and quantitative standards, including provisions and capital requirements for expected and unexpected increases in life expectancy.
5. **Ensure adequate risk-bearing capacity:** Policymakers should consider ensuring that institutions taking on longevity risk, including pension fund

sponsors, are able to withstand unexpected, as well as expected, increases in life expectancy.

6. **Monitor market developments:** Policymakers should closely monitor the liquidity risk transfer taking place between corporates, banks, (re)insurers and the financial markets, including the amount and nature of the longevity risk transferred, and the interconnectedness this gives rise to.
7. **Pay attention to tail risk:** Supervisors should take into account that longevity swaps may expose the banking sector to longevity tail risk, possibly leading to risk transfer chain breakdowns.
8. **Collect adequate data:** Policymakers should support and foster the compilation and dissemination of more granular and up-to-date longevity and mortality data that are relevant for the valuations of pension and life insurance liabilities.

An earlier version of this report was [issued for consultation in August 2013](#). The changes made to the consultation document are further detailed in the annex to the final report. The Joint Forum thanks those who provided feedback and comments as these were instrumental in revising and finalising the report and its recommendations.

Mr Thomas Schmitz-Lippert, Chairman of the Joint Forum and Executive Director, International Policy/Affairs of BaFin, the German Federal Financial Supervisory Authority, stated "the Joint Forum's report on longevity risk will help global policymakers and supervisors remain ahead of the curve as this risk may amplify the interconnectedness of financial sectors and can lead to risk management challenges, systemic risks and stress".

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The Joint Forum was established in 1996 under the aegis of the Basel Committee on Banking Supervision (BCBS), the International Organization of Securities Commissions (IOSCO) and the International Association of Insurance Supervisors (IAIS) to deal with issues common to the banking, securities and insurance sectors, including the regulation of financial conglomerates.