

The German Secondary Market for Life Insurance

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Content

- **Current development of the German Secondary Market for LI**
- Challenges from the investors' perspective
- Run-off and Secondary Markets

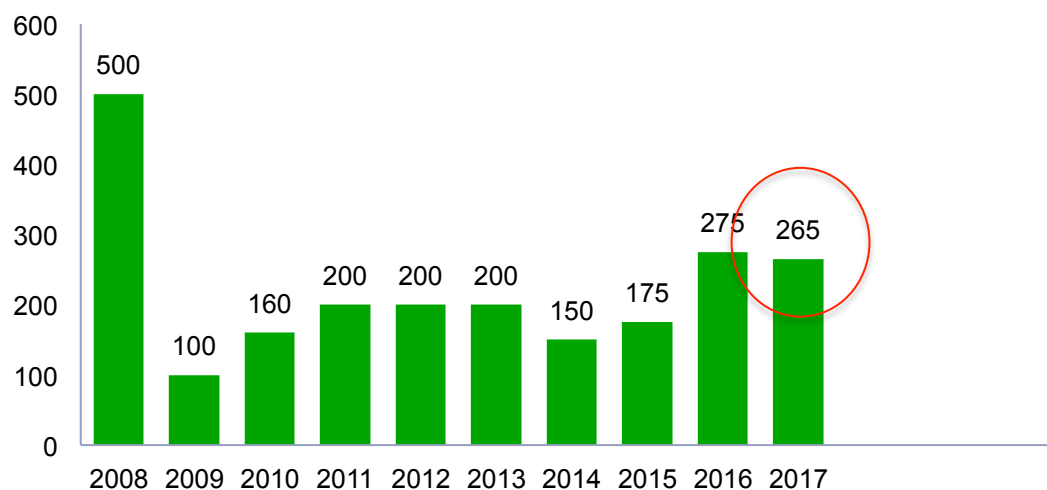
The secondary market fulfils all conditions for sustainable management



- All participants benefit from the secondary market
- The German secondary endowment policy market does not disadvantage any market participants
- The BVZL promotes and demands the dialogue of all participants in the German secondary market for LIs
- The BVZL as the largest institutional policyholder is a representative of the interests of the insurance collective

Market Update German Policies Secondary Market

- Purchase volume almost maintained in 2017



- Purchasing barometer stands at "high" - Policy offer still an issue



Market Update German Policies Secondary Market

- Higher demand and lower supply lead to high purchase prices
- Investors want diversified portfolios / but the purchase of individual policies by investors continues to be in high demand
- Transparency initiative of the BVZL, the consumer centres and associations, as well as the GDV shows first results - but many topics are still to be worked on
- Pseudo secondary endowment policy market remains an urgent issue, but the public is now much better informed about dubious or unfavourable offers for consumers
 - fraud models
 - shifter
 - Fee models



How to recognise quality in policy purchasing

Quality criteria for BVZL members

- No processing fees will be charged.
- Trustee processing is offered.
- The purchase price is paid in full in one sum.
- The retention of a contribution-free residual death cover is offered.
- Fast processing and transparent customer communication.



Serious buyers are organised in the Bundesverband Vermögensanlagen Zweitmarkt für Lebensversicherungen (BVZL)

Development of the German secondary market for life insurance

- Strong position with stable prospects for the next 5-10 years
 - Highly attractive risk/return ratio with interest guarantees of 3% and more
 - The vast majority of German primary insurers have good to satisfactory financial strength
 - Policy investments include inflation protection
 - High liquidity through intrinsic put option
 - Policy offer secured for at least 5 - 10 years
 - Protective mechanism for investors through legal regulations (protector)
 - Better calculation bases thanks to the Life Insurance Reform Act and the associated regulation on the allocation of reserves
 - This also offers many advantages for consumers/sellers, as both the likelihood of purchase has increased to over 70% and the purchase prices at 3-5% in individual cases amount to up to 15% of the surrender value.

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What makes Secondary Market Policies attractive to investors?

Three reasons
for success...

Preservation
of capital

+

Backup of
guaranteed interest

+

Attractive
real interest



...in the event of
inflation, protection
against (devaluation)
losses and at the same
time securing a long-term
return above the general
capital market level.

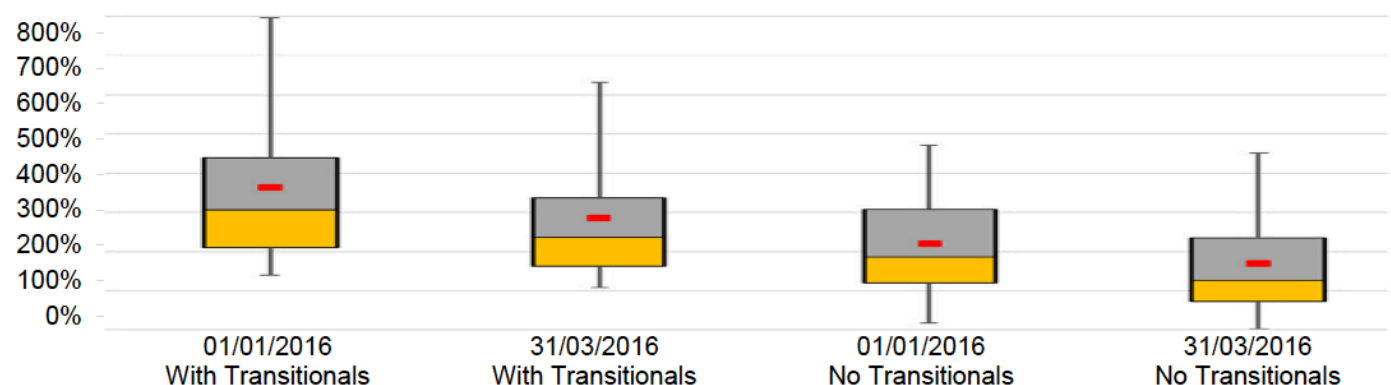
...in the event of
deflation, an attractive
guaranteed interest rate
that cannot approach the
zero percent mark.

... also in the current **low
interest rate** environment
an attractive interest rate
with a high degree of
security at the same time.

Market Update German Policies Secondary Market

- Primary insurers face major challenges
- Weak insurers will experience problems in new business
- On the other hand, strong insurers will benefit from it

Solvency II ratios of German life insurers with and without transitionals



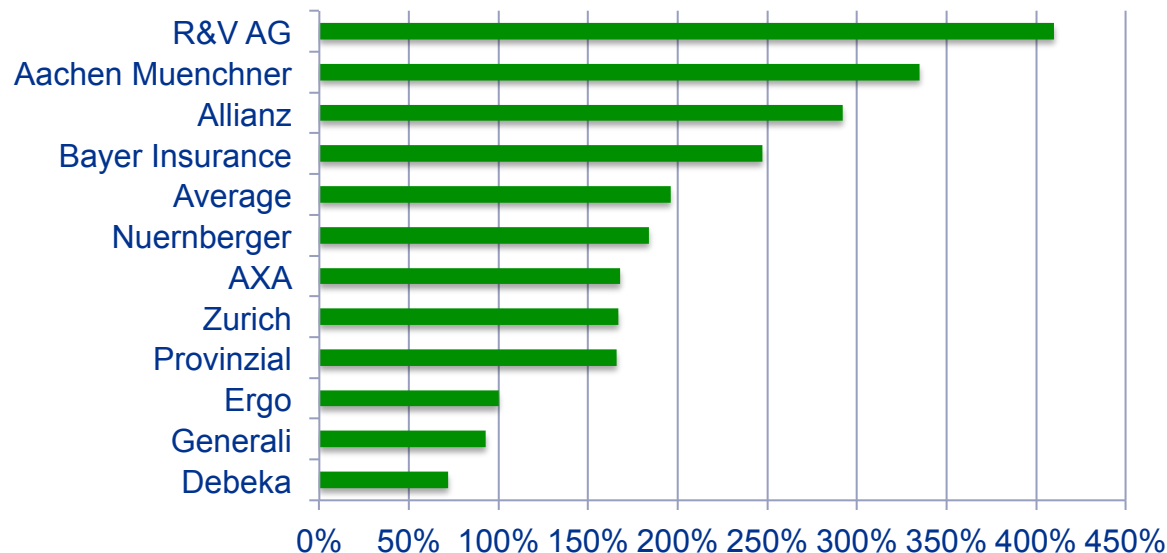
Source: Bafin August 2016

Source: Moody's

Financial strength and profitability of German LI companies under Solvency II

- The solvency ratios without taking the transitional arrangements into account vary considerably
- Some insurers are not sufficiently capitalized
- Average SCR rate 2015 = 283%/ 2016 = 344%

SCR ratio without transitional regulation and volatility adjustment



Source: Versicherungsjournal

Tasks of the BVZL

- The companies and service providers in the Bundesverband Vermögensanlagen im Zweitmarkt Lebensversicherungen (BVZL) e. V. are active in secondary life insurance markets worldwide.
- Since its foundation in May 2004, the association has acted as a unified representation of interests in economic, legal and political matters and is in constant dialogue with politicians, opinion leaders, the public and other interest groups in order to further support the dynamic development of the industry.
- Important missions for the BVZL are:
 - Setting industry standards for transparency and comparability
 - Central point of contact for policyholders seeking an alternative to termination
 - Fostering relationships with insurers
 - Demand for an information obligation for insurers
 - Information about the pseudo secondary market

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Run-Off in the German Life Insurance Market

- For some primary insurers the continuation of portfolios no longer makes economic sense
- Selected results of a study by Willis Towers Watson "WTW" on behalf of FWU AG from 2016 (Source: WTW press release of 12.04.2016):
 - 66% fully agreed that active management of run-off portfolios could open up additional earnings potential
 - 70% fully agreed that in selected situations it may make sense to transfer run-off holdings to third parties.
 - Especially in the product lines of traditional guarantee products and unit-linked products, the participants saw an increasing importance of the run-off market.
 - The participants could imagine themselves as suitable counterparties, especially domestic counterparties.

Run-Off in the German Life Insurance Market

- Forms of Run-Off
 - Closure of a position due to conversion of the rate structure
 - Internal Run-Off
 - External Run-Off
- External life insurance - Run-Off companies
 - Viridium
 - Frankfurter Leben
 - Athora (former Athene)

Run-Off in the German Life Insurance Market

- Business model of the Run-Off companies
 - Replacing inefficient inventory management systems
 - Further cost savings by concentrating on inventory management
 - Economies of scale through growth
 - Optimization of investments, asset and liability management

Run-Off from the perspective of the German Secondary Market

- Interests of investors almost congruent with policyholders
 - Security of the cover pools or the paid-up capital
 - Security of the Guarantees/Accounting Interest Committed
 - Earnings strength of the companies/payment of overcharge interest
 - Less important for secondary market investors are the underwriting obligations of the run-off companies
- Evaluation of run-off companies by secondary market investors
 - Regulation by BAFIN ✓
 - No change in the legal framework conditions
 - Discount rate ✓
 - Profit participation ✓
 - Provision of the prescribed solvency capital ✓
 - Pacta sunt servanda ✓

Run-Off from the perspective of the German Secondary Market

- Conclusion:

- The BVZL companies of the German secondary market have full confidence in the regulation of the BaFin, which also applies 1:1 to the Run-Off companies.
- As the largest institutional policyholder, they do not cancel policies transferred to run-off companies, nor do they advise consumers to do so hastily
- Nevertheless, the entire development in the German Life Insurance Market can be closely observed, as all companies face major challenges against the background of the persistently low interest rate level - see additional interest rate reserve or transition period for solvency capital.

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