Equity release reinsurance

Increasing longevity and a reduction in investment yields make it necessary for elderly people to look for additional income components to fund their future costs of living. Taking out a loan becomes difficult from a certain age onwards; meanwhile, using the equity accumulated in one's property might become a viable option. However, actually selling up is often not an option, due to the emotional attachment to the home and its neighbourhood, or the expense and the stress that come with moving and selling the property.

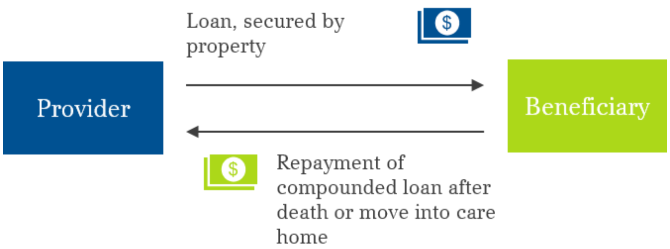
Equity release solutions

Equity release solutions address elderly people that are "cash poor, but asset rich" – their asset being their home. The idea is to release equity from the real estate while retaining the right to live there until death or a move into a care home.

Apart from the right of residency, the beneficiary (i.e., the current owner of the property) might receive a lump sum and/or regular instalments such as a life annuity (with optional features such as escalations, joint lives, or deferrals). We distinguish between two different product concepts:

Reverse mortgage

In essence, a reverse mortgage is a loan, paid out as a lump sum and/or regular instalments, taken up by the beneficiary and secured by the value of the property in question. This product releases capital while enabling the beneficiary to remain the owner of the property. The loan is repaid when the beneficiary dies or moves into a care home.



Concept: reverse mortgage

Given their nature as a loan, reverse mortgages provide a substantial amount of flexibility: When due, the beneficiary's heirs might repay the loan by selling the property; however, it is also possible to keep the property and finance the loan repayment from other sources.

Often, a no-negative equity clause provides the guarantee that the refund may never exceed the current property value, thus no debts will be bequeathed.

Home reversion

The crucial difference of a home reversion in comparison to a reverse mortgage is the assignment of the home's ownership:

With a home reversion, the ownership of the home is transferred to the provider immediately, either fully or partially. In return, the beneficiary receives a payment, either a lump sum or regular instalments, and retains the right to live in his/her home.

Concept: home reversion

The home reversion concept provides a greater amount of security for the beneficiary: As the home is transferred to the provider immediately, the property market risk lies with the provider; no refund is due at any point. Also, the responsibility for insurance, taxes or maintenance now lies with the provider.

Why offer equity release solutions?

- Attractive rates of return for both providers and investors.
- Opens up new market segment, attracting new target groups.
- Particularly attractive for life annuity providers: Annuity single premiums can be reinvested in equity release lump sums at decent yields, and both life annuity and equity release treaties are long-term products.

"Over 70% of Europeans do not consider their home as part of their pension. Strong differences were found within age cohorts. [...] This indicates that there is a mentality shift to come over the next decades. In the US, UK and Australia these percentages are much higher, this is in line with the popularity of equity release products."

ING International Survey Homes and Mortgages, September 2015

Key risks

Depending on the product structure, equity release providers might be exposed to a range of risks. These include:

Longevity

- Risk of longer annuity payments than anticipated
- Risk of decreasing returns due to no-negative equity clause (reverse mortgages only)
- Risk of not being able to sell/rent the home as early as expected (home reversions only)

Mortality/lapse

- Risk of early loan repayment (reverse mortgages only)

Market

- Property market risk (decreasing property values trigger no negative equity clauses or lessen property sales returns)
- Interest rate risk (risk of increasing/decreasing risk free interest rates, depending on product structure)
- Liquidity risk (capital is provided before the home becomes free/loan is repaid)

Equity release reinsurance with Hannover Re

We at Hannover Re are experts for the reinsurance of all kinds of biometric risks.

Our reinsurance concepts for longevity and mortality components support our clients in optimising their equity release offerings. Reinsurance concepts that transfer biometric risks associated with equity release solutions and thus stabilise our partners' cash flows include:

- RERT (Regular Equity Release Treaty)

  An RERT stabilises the cash flow emerging from the uncertain timing of the beneficiary's death and the associated loan repayment/disposability of the home.
- RPAT (Regular Premium Annuity Treaty)

  An RPAT stabilises the cash flow emerging from the uncertain duration of annuity payments to the beneficiary.

Regardless whether you are a first mover in your market or aiming to offer more competitive rates in an already developed market: With our extensive experience in the senior citizen market, the biometric expertise of our data analytics team, and our worldwide leadership in longevity reinsurance, we are the ideal partner for your equity release business, when it comes to individually tailored reinsurance solutions or the setting of risk-adequate mortality assumptions.

We look forward to finding the best solution to your specific needs together.