

Longevity Bonds and the Financial Stability of Retirement Systems

Lessons from the Chilean Case

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In 2009, the World Bank, Department of Treasury developed a longevity risk hedging instrument for the Chilean life insurance companies in the form of a Longevity Bond. With a sizeable annuity business, the Chilean life insurance sector has a significant and structural exposure to longevity risk. The 25-year Bond, designed with JP Morgan and Munich Re, supported by the Chilean regulatory agency, was paying a return over government together with the hedge payout. Yet it was eventually not accepted by the life insurers. The presentation reflects on the main lessons learned from this attempt. Then, taking into account the most recent evolution in longevity hedging capital market solutions, it further examines the practical conditions for the growth in markets for such instruments.