HYMANS ROBERTSON

Risk Transfer Report 2020

Your annual overview and analysis of the risk transfer market

Welcome to our unique insight into the risk transfer market

2019 marked another record-breaking year in the pension risk transfer market, with both volumes and transaction sizes continuing to grow. The total value of transactions completed surpassed the £40 billion mark - nearly doubling 2018's record.

Almost all insurers active in this market have also had another record-breaking year in terms of buy-in/buy-out transaction volumes. Additionally, there were five transactions over £3 billion in size. We provide a case study on Allied Domecq Pension Fund's £3.8bn buy-in on page 8.

Excellent pricing opportunities are still available for pension schemes, despite the high transaction volumes. The continued growth in demand means insurers are having to turn some pension schemes away. As a result, schemes must be well prepared before approaching the busy market if they want to get on the front foot. But this alone might not be enough. Pension schemes will have to have a clear broking strategy, and a good understanding of how insurance companies think and operate in order to stand out from the crowd and become more attractive to insurers.

I am delighted to share our fourth annual report tracking the key changes in the bulk annuity market and looking at what these changes could mean for your defined benefit (DB) pensions scheme, wherever you are on your journey towards risk transfer.

We take a look at five key areas:

1. **Bulk annuity insurers overview** (pages 4-9) – an update on changing market dynamics.
2. **The trustee perspective** (pages 10-13) – how to prepare as you move along your journey plan.
3. **Regulatory update** (pages 14-17) – what's new and what this means for you.
4. **Longevity risk update** (pages 18-23) – the latest trends and approaches to managing longevity risk.
5. **Pension scheme demand for insuring deferred members** (pages 24-26) – potential to accelerate your journey plan.

Proven experience and unrivalled innovation

We have proven experience in all areas of risk transfer, with unrivalled insights into insurers and reinsurers. Here is just a snapshot of our 2019 deal credentials.

Over 2019 we have led:

over £8bn of risk transfer transactions

5 risk transfer transactions for **FTSE 100 sponsored pension schemes**

7 risk transfer transactions **over £100m**

The largest ever buy-in to include **deferred members**

Over 2019 we've also been appointed lead risk transfer adviser to:

>80% of the schemes we've tendered for

We also share insights on each insurer.

I hope you find our report helpful for your journey towards your pension scheme's long term goal and ensuring your members' benefits aren't left to chance.

If you have any questions about anything covered, please don't hesitate to get in touch with me, or one of the authors listed on page 27.

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1 Bulk annuity insurers overview

The buy-in/buy-out market is busy, so what?

The buy-in/buy-out market underwent a step change over the last couple of years with buy-in and buy-out volumes increasing dramatically. 2019 was an incredibly busy year with over £40bn worth of business completed, and a few extremely large transactions driving the market. We explain here what this means for you.

Current insurer appetite

The below table shows, for each insurer in this market, how likely they are to provide a quote for buy-in or buy-out transactions of different sizes.

		Appetite by transaction size				
	Deferreds?	‹£50m	£50m - £100m	£100m - £500m	‹£500m - £2bn	›£2bn
Aviva	✓	🟢	🟢	🟢	🟢	🔴
Canada Life	✗	🟢	🟢	🟢	🔴	🔴
Just	?	🟢	🟢	🟢 🟡	🔴	🔴
Legal & General	✓	🟢	🟢	🟢	🟢	🟢
Phoenix Life	✗	🔴	🟡	🟡 🟢	🟢	🔴
Pension Insurance Corporation	✓	🟡	🟢	🟢	🟢	🟢
Rothesay Life	✓	🔴	🔴	🟡 🟢	🟢	🟢
Scottish Widows	✓	🔴	🟢	🟢	🟢	🔴

Key

✓ Able to write

? More selective

✗ Unable to write

🟢 More likely to quote 🟡 More selective 🔴 Unlikely to quote

Record-breaking deals

Insurer appetite for differing transaction sizes was relatively unchanged over the year, but the multi £bn buy-in/buy-out became a further "ordinary" transaction size that shifted market dynamics during 2019.

There were five transactions over £3bn in 2019 (which are listed on the right) compared with only one such transaction ever occurring in prior years. The impact of this was felt throughout the market.

Pension scheme	Size	Insurer
Telent	£4.7bn	Rothesay Life
Rolls Royce	£4.6bn	Legal & General
Allied Domecq	£3.8bn	Rothesay Life
Asda	£3.8bn	Rothesay Life
British American Tobacco	£3.4bn	Pension Insurance Corporation

Supply vs demand

Demand was not only driven by these larger pension schemes. There were over £11bn of transactions less than £1bn. This high demand across the board has had a significant impact on market dynamics. Up until 2018, it was predominantly a buyers' market, typically with more supply from the insurers keen to complete transactions than demand from pension schemes. During that time, it was relatively easy for pension schemes to get high levels of engagement from a good range of insurance companies.

Now, it's changed to become more of a sellers' market, with the insurers not always able to keep pace with the demand from pension schemes. A stark illustration of this is that, during 2019, one leading insurance company declined to quote on 46 buy-in requests which were over £100m each, with a total value of over £12bn.

How has this affected the pension scheme experience in this market?

Game theory for large transactions	**Some large transactions (over £1bn)** will have found themselves subject to game theory strategies of insurers - this has always been present but never felt more acutely than during 2019. Each insurer will have been speculating about the transactions that their competitors are focussing on. Their views will have influenced their decisions over what transactions they quote on and the pricing they are prepared to offer.
Timing decisions for mid-sized transactions	**Many mid-sized transactions (£250m - £1bn)** will have found that the prices they were quoted were, at times, materially influenced by the volume of activity in the market. With pricing being influenced by short term effects that vary between insurers, trustees will have had to decide whether to wait or accept the terms available at that time.
Objective targets for small transactions	**Small transactions (less than £50m)** will have found themselves struggling for insurer appetite, due to many larger transaction opportunities in the market. Many schemes that successfully completed transactions of this size will have done so by setting clear pricing targets based on individual requirements and adopting condensed, or single round broking processes.

Pension schemes can still obtain attractive pricing for buy-ins and buy-outs, but this requires careful preparation and a well thought through transaction process, reflecting an in depth understanding of how insurance companies operate. So how can you stand out from the crowd?

Careful preparation

Preparation has always been important before looking to complete a buy-in or buy-out, but detailed preparation is now a critical part of the process. Insurance companies are inundated with quotation requests and so the insurers hold regular "triage" meetings to discuss the quotation requests they have received over the last week. With limited people resource, the insurers need to decide which quotations to go for and which ones to decline.

So pension schemes need to demonstrate to the insurers why they are a brilliant case for them to focus their efforts on and deliver their best pricing to. We view sending out the Request for Quotation as a key opportunity for a pension scheme to sell itself to the insurance companies by clearly setting out all the factors that make them an attractive prospective transaction. This requires preparation. The more items that pension schemes can demonstrate they have ticked off in the list overleaf, the more attractive they will look to the insurance companies.

Data

- Spouse survey
- Spouse pensions
- GMP reconciliation
- GMP equalisation
- Mortality experience data

Benefits

- Specification reviewed and signed off by lawyers
- Benefit audit

Governance

- Feasibility done
- Company and trustees on board
- Joint working party
- Independent trustee
- Track record – done a buy-in before

Well-planned process

- Clear timetable
- Price target
- Considered any unusual features

Other

- Member option exercises complete
- Clear investment transition plan

Outside your control

- Strong brand name
- Part of large scheme
- Other DB schemes in group

We focus on some of the less well trailed items on this list below:

Company and trustees on board

Insurers are all too aware that a common reason that transactions fail is when the trustees' and sponsoring employer's objectives are not aligned. For example, late in a process it could transpire that the sponsoring employer is not happy with the company accounting implications of the transaction and so the transaction does not complete. Therefore, it's critical for pension schemes to be able to demonstrate to the insurance companies that both the trustees and sponsoring employer are fully supportive of the transaction, and to back this up with evidence.

Linked to this, it's also important to demonstrate that all stakeholders have been through a carefully considered feasibility process and that a joint working party, with representation from the trustees and the sponsoring employer, has been set up with a clear governance remit to progress the transaction.

Communicating your price target

The feasibility process should identify the price below which the trustees' and sponsoring employer's objectives for the buy-in or buy-out would be met – the "price target". In most cases, we recommend that this price target is shared with the insurance companies. It might seem counter intuitive to "give away your hand" but it's often the best way of getting strong engagement, and therefore competition, from the insurers. Unrealistic price expectations are another common reason for transactions to fail and so sharing a well-informed price target with the insurers gives them the confidence they need that your pension scheme has a realistic (but challenging) assessment of the level of pricing that they are likely to be able to achieve.

Clear timetable

Sharing a clear transaction table, complete with meeting dates and decision points, with the insurance companies will give them confidence that your process is serious and well thought through. In a busy market, it'll also allow the insurer to plan its own workload and decision points for your transaction around other processes it has on the go.

Member option exercises complete

Insurers are able to factor in the financial benefit of future member option exercises into a buy-in or buy-out premium. However, this is more complex for the insurers and won't always give full value to a pension scheme. So, whenever timescales allow, we'd recommend completing any member option exercises in advance of entering into a buy-in process. When structuring the member option exercise, it's important to understand how it will be perceived by insurers and factor this into the design.

Clear investment transition plan

Insurers are well aware that the disinvestment, or transition in-specie, of certain assets to pay the buy-in or buy-out premium can be complex. For example, some pension schemes hold illiquid assets, which can take time to disinvest. Pension schemes should carefully review their assets, build a plan for how and when those assets will be disinvested into cash (or passed across to the chosen insurer) and discuss and communicate this plan with the insurance companies. Find out more on page 10.

How we helped secure one of the largest buy-ins to date

Case study on Allied Domecq Pension Fund buy-in

In September 2019, the Allied Domecq Pension Fund completed a £3.8bn buy-in covering over 27,000 members, including 10,000 deferred pensioners. Our very own Michael Abramson was lead adviser to the Fund and tells us how they went about securing this outcome.

Preparation

Once the Fund decided a buy-in met its long term objectives and appeared to be affordable, a joint working party ("JWP") was quickly established to ensure alignment between Company and Trustee.

The JWP set about preparing in three key areas: **assets, benefits** and **data**. In all areas, they were able to build on extensive Trustee ground work done over many years as part of its long term strategy.

In terms of **assets**, the Fund was already heavily de-risked. That being said, some strategic actions were taken such as limiting its exposure to assets that insurers would be less likely to accept as part of a buy-in premium. A detailed **benefit** specification was drawn up for insurers, with input from all the Fund's advisers. Consistency with the Fund's deed and rules was key, with clear decisions made about how Trustee discretions should be insured.

The JWP was quickly able to prioritise **data** cleansing ahead of approaching insurers.

As with many pension schemes, the Fund did not hold marital status information for their members – a key data item for insurers to provide the most competitive price. While the JWP considered writing to all members to gather this information, it quickly realised that processing nearly 30,000 forms was going to take a lot of time. If it took two minutes to process every form, that would mean 900 hours of work. After consulting with insurers and reinsurers, the JWP decided to take a two-pronged approach, writing out to the 10% of members who represented 50% of the liabilities and simultaneously using sophisticated tracing techniques to determine marital status of the remaining members. This saved time while providing excellent data coverage across the entire Fund.

30,000 forms

900 hours of work

3,000 forms

90 hours of work

Market engagement

It was clear to the JWP that 2019 was not going to be an ordinary year in the bulk annuity market. In addition to continued growth in demand, a small number of similarly large pension schemes were also vying for insurer capacity and attention. There was also the known unknown of the various Brexit deadlines and the unknown unknown of the US-China trade dispute. The JWP dealt with this by being well prepared, clearly setting out its objectives to insurers and maintaining flexibility in terms of its process and timeline. This was clearly communicated through face to face meetings with senior executives at all insurers.

"The Fund came to market with clear, well thought through objectives which allowed us to focus on providing tailored solutions for their key requirements."

Sammy Cooper-Smith, Co-Head of Business Development at Rothesay Life

Sealing the deal

Once it became clear that insurer pricing was going to meet the Fund's objectives and given the various market uncertainties, the JWP chose to accelerate the insurer selection process. At the point of selecting Rothesay Life, the premium was no longer determined in pounds and pence; rather, it became a list of assets and cash already held by the Fund. This meant the Fund was immunised against changes to buy-in premium during the final stages of negotiations and helped to ensure that there were no surprises.

"In my capacity as an Independent Trustee I have worked on a number of buy-ins and buy-outs over the years. Securing a £3.8bn buy-in in the context of an increasingly fast-moving and crowded market brought new challenges and required maximum flexibility. Hymans Robertson's insights and expertise helped the Fund to smoothly navigate this landscape and secure excellent terms with Rothesay Life."

Lisa Arnold, the Fund's Chairman of Trustee

The key to success

The key factors to success were having clear objectives, good governance and excellent project management, all underpinned by strong multi-disciplinary teamwork.

2 The trustee perspective

A simple guide to investment strategy targeting bulk annuities

Which asset classes should you consider when your long term objective includes buy-in and/or buy-out?
We often get asked how schemes can better match insurer annuity pricing, or whether insurers are likely to accept a particular asset at some point in the future. When considering these questions, the two most important items are:

1. **Insurer pricing is diverse.** There are currently eight insurers active in the bulk annuity market, all with different investment strategies. Even for one insurer with a stable overall portfolio, pricing will generally be based on the assets they are matching against new business, which will change from time to time. So, while you can capture general trends in insurer pricing, you can never match the whole market.

2. **Never buy an asset assuming that an insurer will want it in the future.** Insurance capital treatment of assets varies, with restructuring often needed for insurers to optimise capital treatment. This is particularly relevant for illiquid assets. As a result, an asset that may seem a good match for pension liabilities may not be acceptable for an insurer at the point of buy-in or buy-out. Insurance regulations also change, so what's attractive today may not be attractive tomorrow. And, even if an insurer is willing to take on an illiquid asset, you may struggle to agree the valuation at the point of transfer.

On the next page, we've set out some considerations for different physical assets, based on the following three criteria:

1. **Insurer price tracking**
We consider the extent to which different asset classes track insurer pricing. For many schemes, this will be the most pressing issue, and is relevant at all stages in the run up to buy-in or buy-out, whether that is months or years away.

2. **Suitability for price lock portfolio**
This becomes relevant when schemes are much closer to buy-in or buy-out. Typically at the point of entering into exclusivity with a given insurer, that insurer will be able to lock pricing to a mixture of specific assets or indices for the four to six weeks needed to finalise the buy-in/out. If the scheme can earmark similar assets then this will help to avoid any unwanted mismatch during this time. We consider whether each asset class can typically be used as part of the construction of a price lock portfolio.

3. **In specie transfer**
For most buy-ins/outs, schemes disinvest the assets and pay the premium in cash and so this is not a relevant factor. However, for schemes that have segregated investment portfolios, there may be assets that insurers can take on as premium payment, which can lead to efficiencies such as avoiding costs of sale. Some insurers are only willing to consider this for large transactions.

Asset class	To track insurer pricing?	In a price lock portfolio?	In an in-specie transfer?
Fixed income gilts	• Useful as part of a diverse portfolio • Interest rate exposure will be helpful, though insurer pricing will typically move more in line with swaps than gilts	✓	✓
Index linked gilts	• Useful as part of a diverse portfolio • Interest rate and inflation exposure will be helpful, though note comments above regarding rates	✓	✓
Corporate bonds (public)	• Useful as part of a diverse portfolio • Many but not all insurers use corporate bonds as part of their overall investment strategies	✓ (but not for all insurers)	✓ (may exclude: • sub-investment grade; • bonds with options e.g. callable; and • certain sectors or names if insurers have reached their max exposure.)
Equity	✗	✗	✗
Property	• Minimal • Some insurers will have exposure, but unlikely to be a strong feature of pricing basis	✗	Generally not. Insurers may consider for large transactions, although it may be hard to agree valuation.
Asset backed securities, credit default swap etc.	• Minimal • Some insurers will have exposure, but unlikely to be a strong feature of pricing basis	✗	
Illiquid assets, e.g. private debt, infrastructure, ground rents	• Minimal • Some insurers will have exposure • Specific assets may dictate pricing from time to time, but likely to be bespoke and hard to match	✗	

A number of the asset classes that are not a good fit for a buy-in may still be appropriate for schemes targeting future buy-ins. For example, illiquid assets can generate cashflows to help fund future buy-ins, while providing attractive returns in the medium term to help schemes reach their objectives.

Next steps…

We encourage all trustees to set clear objectives and a journey plan for their schemes, ensuring that their investment strategy is an integrated part of that plan. For schemes targeting buy-out or using buy-in as part of their strategy, the practical considerations set out here should be factored into that journey plan.

Data cleansing: the key to a successful project

There is huge variation in the depth and breadth of data cleansing carried out by schemes ahead of, during, and after purchasing a bulk annuity contract. However, successful approaches to data cleansing tend to have a clear understanding of what impacts insurer pricing; a collaborative spirit between the scheme, its advisers and service providers; and detailed project planning.

First things first – understanding what matters to insurers ahead of approaching the market

Any data cleansing plan being put in place ahead of engaging with insurers should begin by understanding the quality and completeness of those data items fundamental to pricing accuracy. It could come as a surprise to trustees that significant work is required in these areas when data is understood to be in good order for both day-to-day operation and valuation purposes. As set out below, the key items to focus on at this stage are postcodes, marital status information and contingent pension amounts:

- **Postcodes:** These are the foundation of insurers' assumptions regarding life expectancy at an individual level. Whilst schemes may take a similar approach for valuation purposes by using Club Vita, many adopt scheme-wide assumptions and regardless of approach, postcode data held is not likely to be fully up-to-date.

- **Marital status information:** Insurers use current marital status data, including any spouse's date of birth, to determine the likelihood at an individual level that a contingent pension will come into payment and for how long. This information is not typically held by schemes, except perhaps as at the date a member retired – which may well be outdated.

- **Contingent pension amounts:** Having determined the likelihood that a contingent pension will come into payment and for how long, insurers will require data at a current date for the amount that would be due. Contingent pension amounts are typically only calculated by administrators following a member's death, so this may require a bulk calculation.

Trustees can use an array of electronic tracing services or write-out to members directly to collect or verify postcode and marital status data. Which type of exercise, or combination of exercises, is carried out will depend on the timing of the approach to market as well as on cost and resource considerations. However, before simply opting for an electronic exercise on the grounds of it being cheaper and quicker, trustees will need to consider that the data collected directly from members is likely to be more reliable. Insurers may have a stated preference for a write-out exercise to be carried out, or could even require this route to be taken for a selection of members such as those with the largest pensions or liabilities.

If trustees do not collect, verify or calculate these items as appropriate, it may be challenging to get initial quotations from insurers who may prefer to focus on more prepared schemes in a busy market. In the event that insurers do engage, the risk with postcodes and marital status information is that insurers adopt more prudent assumptions than would've been the case otherwise, leading to higher pricing. In respect of contingent pension amounts, there may be a mismatch between the benefits insured and those due to some members' dependants, though this can be addressed during the data cleanse window.

Using the data cleanse window well – drawing from the pool of scheme knowledge

Buy-ins or buy-outs tend to have a data cleanse window for 12 to 18 months following the transaction, during which amendments can be made to the data underlying the insurance policy, with an associated adjustment due to the insurance premium. Schemes that have made the most of this window of opportunity have used the following behaviours and practices to help identify where further data changes may be required well ahead of entering into the policy:

- **Readiness for change:** Trustees will be aware of potential areas of focus during the data cleanse window from any ongoing projects, such as GMP rectification and the findings of past data audits. However, the attention to detail inherent in a risk transfer project can help to identify less obvious areas where data changes are required. A scheme culture of being ready, receptive and open to uncovering such required changes encourages this attention to detail by seeing the outcome as an improvement in the extent to which members will receive their actual benefit entitlements rather than as a criticism of past practices.

- **Drawing from pooled scheme knowledge:** Scheme knowledge is spread more widely than the project's primary professional advisers. Recognising that knowledge of historic practices and dormant data and benefit issues more likely resides with key long-serving administration and company staff improves the thoroughness and efficiency of the related investigations.

- **Collaboration between advisers and service providers:** Cross-party working practices, such as sharing key proposal documents for review by all the scheme's primary advisers and service providers, are an essential component of bringing issues to light. The benefit specification for example, which essentially sets out the entitlements of the members covered by the transaction in an insurer friendly form, is usually drafted by the scheme's lawyers and risk transfer advisers. However, a perfect reflection of the Rules is not necessarily a perfect reflection of administrative practice. So, building in time for the day-to-day administration team to thoroughly review the specification for consistency will help to identify where benefit and data mismatches exist.

In it for the long game – managing multiple dependent workstreams

Such a thorough approach may identify more areas for cleansing than can be dealt with during the data cleanse window itself. Even where this is achievable, it's unlikely to be clear where the cleansing should actually begin. As a result, the most successful approaches to data cleansing recognise the importance of having a detailed project plan that gives due consideration to the following:

- **Dependent workstreams:** It's unlikely that every area of data cleansing can be carried out in isolation. It also might not be possible to begin with the more material items, resulting in the need for the project plan to consider the dependencies between the various workstreams.

- **Resource planning:** It should be recognised at the outset that much of the data cleansing work will require the input of the scheme's administrators who will simultaneously need to maintain service standards for business as usual operations. As such, resourcing for the more involved data cleansing projects should be planned in advance and may include enlisting the services of a specialist data provider.

- **Materiality:** Trustees will wish to take a proportionate response to the issues identified and, where prioritisation is required, consider materiality at both an individual and a transaction level, to determine whether some actions should be deferred until after the data cleanse window.

Where schemes are carrying out a buy-in transaction, trustees should look for the contract to allow further data amendments to be carried out when eventually converting the policy to a buy-out. This provides comfort that outstanding data cleanse actions not completed during the data cleanse window can still be covered by the policy in the future.

In summary, clear self-appraisal and good planning are key to obtaining the best insurer engagement and pricing and, ultimately, to ensure that members receive the benefits they are due.

3 Regulatory update

After a number of years of regulatory change, 2019 was generally characterised by a more gradual pace of regulatory development for the life insurance industry. Despite this, the long term future of insurance regulation is significantly less clear. The current regulatory regime is part of EU law and the UK's impending departure from the EU may provide UK regulators with more flexibility. Indeed, the outgoing Governor of the Bank of England has recently stated that he does not believe it is desirable for the UK to tie its regulatory approach with the EU's.

One of the main areas of regulatory focus from a prudential perspective has been around Equity Release Mortgages (ERMs).

Equity Release Mortgages

We discussed ERMs in our 2018 Risk Transfer Report. They continued to be a major area of regulatory focus in 2019, with the Prudential Regulation Authority (PRA) finalising its proposals for how ERMs should be allowed for within insurance companies' valuations.

An ERM is a product where the customer borrows money secured on their home. The loan typically increases with interest at a set rate and is usually repayable when the customer dies or moves into long term care. In the time before the customer dies or moves into long term care, they are required to make any monthly repayments to the insurance company. This is so that ERMs are attractive to people looking to release equity from their home who may not earn regular income to pay for any potential regular loan repayments. The product normally contains a so-called "No Negative Equity Guarantee" (the "NNEG"), which means that the amount repayable cannot exceed the value of the customer's home on death or entry into care.

Insurance companies have increasingly been using ERMs to back annuity liabilities. They use premium income from annuity sales to invest in ERM loans, with returns available generally being considered to be attractive relative to other asset classes. This improves the profitability of writing annuities and allows insurers to pass some of this benefit to the pension scheme through more attractive annuity pricing.

The PRA spent a number of years developing and refining proposals relating to how insurers should allow for the risks associated with the NNEG embedded within ERMs. The PRA's finalised proposals came into effect on 31 December 2019.

During 2019, the PRA finalised additional regulatory guidance in relation to ERMs which covered aspects such as how insurers should allow for additional future lending to customers under pre-agreed facilities, and how ERMs should be allowed for in the regulatory capital requirements – which broadly define the amount by which the value of an insurer's assets must exceed its liabilities.

This guidance is not as significant for the industry as the draft guidance published and consulted upon during 2018.

Our view

The returns available by investing in ERMs continue to look attractive relative to other asset classes despite the new reserving requirements implemented by the PRA. However, as the valuation requirements have become more stringent, the returns available to insurance companies have been eroded. As a result, this has impacted the attractiveness of annuity pricing for some companies.

Although the new requirements apply to all bulk annuity writers, they affect some companies more than others, depending on the valuation approach used by firms before the PRA introduced the new requirements. We therefore don't expect a material impact on the overall market pricing for bulk annuities.

Prudential annuity deal with Rothesay Life – what's going on?

In August 2019, the High Court blocked the transfer of £12bn of annuities from Prudential to Rothesay Life. Michael Abramson has followed this closely, reading through the full Court judgment as well as the documents supporting the proposed transfer. We interview Michael to understand what is going on.

Q: This deal was originally announced in March 2018. Can you remind us what happened back then?
MA: Prudential entered into a reinsurance arrangement with Rothesay Life covering the liabilities in respect of around 400,000 Prudential annuitants. In pensions speak, this is much like a buy-in. Prudential paid Rothesay Life a lump sum premium and, in exchange, Rothesay Life took on the risk and reward of the business, making regular payments to Prudential to cover the pension payroll associated with the underlying annuitants. Given Prudential's reliance on Rothesay Life to make these payments, Prudential set aside capital for this counterparty risk. The annuitants themselves saw no difference to their policies or the way their pension is being paid.

Q: What were Prudential and Rothesay Life's motivations behind the deal?
MA: While the reinsurance crystallised a loss for Prudential, it allowed them to release around £1 billion of capital. This capital was needed to facilitate the demerger of M&G Prudential, the UK part of the business, from Prudential plc, which completed in October 2019. As far as Rothesay Life is concerned, they expect to realise a profit from the business - the economics of which are much the same as for a pension scheme buy-in or buy-out.

Q: You mentioned the reinsurance was like a buy-in. Was it expected to become a "buy-out" at some point?
MA: The reinsurance was expected to be followed by a "Part VII" transfer in 2019. We covered Part VII transfers in our 2018 Risk Transfer Report, but in essence this is a legislated process of transferring insurance policies from one company to another, and is indeed akin to converting a buy-in to buy-out. To carry out the proposed transfer, as with any Part VII process, Prudential and Rothesay Life had to seek approval from the High Court.

Q: How did the High Court rule and why?
MA: The High Court decided not to approve the transfer of the underlying policies.

A number of reports have to be submitted to the High Court for a Part VII transfer, including from an Independent Expert, whose appointment is approved by the PRA after consultation with the Financial Conduct Authority (FCA). The PRA and FCA must also review the proposed transfer. There's also an opportunity for policyholders to object to the transfer, though consent from policyholders is not required.

The judge's main objections were that:

- the Prudential policyholders had chosen Prudential based on its age, its reputation and "the financial support which it would be likely to receive from the accumulated resources of the wider Prudential group if the need were ever to arise",
- based on policyholder documentation, it was reasonable for the policyholders to assume that they would remain with Prudential for life.

The judge drew a distinction between Prudential and Rothesay Life for the above factors. Given the fact that Rothesay Life is much newer to the annuity business than Prudential, it has different capital management policies, and is not part of a large group that might provide capital support should it be required in the future.

Q: What does this mean for Prudential and Rothesay Life?
MA: For now, the reinsurance will continue as is, similar to a long term buy-in. Rothesay Life will carry on making regular payments to Prudential and Prudential will continue to pay their annuitants. Prudential still have to hold counterparty capital, which they would have been able to release at the point of transfer. Rothesay Life will have some inefficiencies themselves, mostly in respect of administration and managing the underlying investments. The larger frustration for Rothesay Life is likely to be that if the judgment stands, this may make it harder for newer, or monoline, insurers like them to compete for annuity business from older, multiline insurers in the future.

Q: Was this an unusual judgment?
MA: Yes! The High Court has never fully rejected a Part VII transfer of insurance business before. The whole industry was taken by surprise at the ruling and given that it could have broader implications, I'm sure there are many who were hoping that this would be appealed.

Q: What do you mean by broader implications?
MA: If any insurer such as Prudential is considering reducing the size of their annuity business, they may be concerned that a successful transfer of the business to another insurer is less likely. And for insurers who wish to acquire such business, the judgment may make them hesitate to bid if they believe that their age or corporate structure puts them at a disadvantage against other bidders. All in all, this could result in a less competitive market for annuity transfers.

Q: Will the ruling be appealed?
MA: Prudential and Rothesay Life are indeed appealing the judgment. The Court of Appeal has not yet set a timetable, but a hearing is not expected before spring 2020, with the judgment to follow later in 2020.

Q: What happens if the appeal is unsuccessful?
MA: In this case, the original reinsurance deal would still remain in place. If the transfer does not happen by April 2021, Prudential have the option of terminating the reinsurance, though they would not expect to do so. Indeed, it would be difficult given it would reverse the capital benefits they needed for their demerger in the first place.

Q: What does this all mean for pension schemes?
MA: As we discussed in our 2018 Risk Transfer Report, the ability of insurers to move business by way of a Part VII transfer means that pension schemes considering a buy-in or buy-out must be comfortable not just with their chosen insurer, but with the insurance regime as a whole. Whether or not the appeal is successful, the High Court judgment certainly shows that the Part VII process is not simply a rubber stamp. The other silver lining for pension schemes is that if some insurers are put off bidding on annuity business from other insurers, this should mean they have more capacity for pension schemes.

Partial buy-outs

Is a series of buy-ins the only insurance strategy prior to full buy-out?

Many schemes transact a series of buy-ins on the way to full buy-out. Converting the buy-ins to buy-out policies when all benefits are covered, and then winding-up the scheme. But is this the only way?

A less common approach would be to settle benefits via a series of partial buy-outs, extinguishing liabilities in parts over time.

So, why might a partial buy-out be attractive?

Partial buy-out strategies are typically driven by the objectives of pension scheme sponsors, for example:

- an objective to shrink the size of the pension scheme relative to the sponsor
- settlement of scheme sections that are more complex or costly to manage; or
- exit of a participating employer.

4 reasons why partial buy-outs are so rare:

Insured members may be viewed to receive preferential security

Buy-out funding level typically reduced for residual benefits

May result in charge to sponsor profit and loss account

Does a scheme need to be fully funded on a buy-out basis for a partial buy-out premium to be funded solely from scheme assets?

It depends. The critical point is whether paying the buy-out premium is expected to reduce the security of remaining members. Which will in turn depend on the situation of the scheme, its sponsor and the overall funding level. In most cases, we'd expect that trustees would look for the remaining liabilities to have the same or better funding position on their Technical Provisions basis with consideration of other bases that are relevant to the scheme's situation.

Where the trustees are satisfied that the security of the remaining benefits is not materially reduced, a partial buy-out could be feasible well before the whole scheme is funded on a buy-out measure.

Should trustees approach a partial buy-out transaction differently to a buy-in?

Given the shorter timescales to issuing policies, trustees planning to partially buy-out will need to accelerate the aspects covered in our earlier data cleansing article on page 12. The following additional actions will also need to be considered prior to approaching the market:

- Legal advice on relevant scheme rules, and whether any amendments should be considered.
- Confirming requirements to discharge responsibility to these members and agreeing how the trustees are satisfied that they have met these requirements.
- Agreeing with the sponsor how the partial buy-out will impact the residual funding strategy. The sponsor will also want to confirm the treatment within the corporate accounts.

Gazing into the crystal ball

While we still expect most insurance to be transacted via buy-ins, we would not be surprised to see an increasing minority of transactions taking the form of partial buy-outs given how attractive a smaller legacy pension scheme liability might be to some sponsors.

4 Longevity risk update

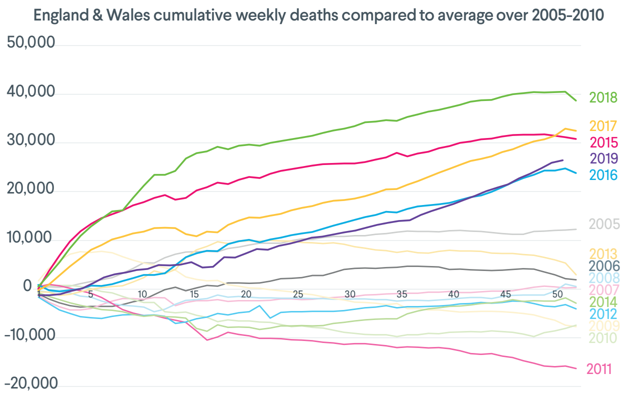
As noted in our 2018 Risk Transfer Report, this decade has seen a slowdown in longevity improvements. In fact, the UK has experienced relatively high rates of mortality with harsh winters, flu seasons, stalling advances in cardiovascular treatment and austerity all having been touted as possible causes. These lower improvements are being reflected in the CMI Mortality Projections Model, which is widely used across the insurance and reinsurance industry to project longevity improvements.

In financial terms, insurers' year end 2018 reserves fell by around £2bn due to weakening longevity assumptions – much of which is due to insurers using a more up-to-date version of the model.

But will this slowdown in longevity improvements continue?

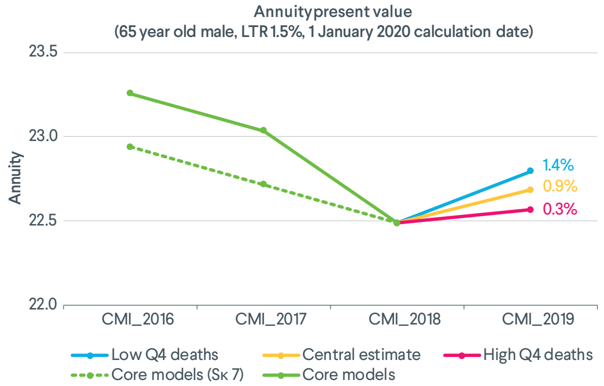
2019 bounce back

The answer? Possibly not. Deaths so far in 2019 were lower than those observed in half a decade as shown in purple on the chart below. That's despite the ageing population, meaning that you'd expect an increase in annual deaths each year if mortality rates stayed the same. If it transpires that the rest of 2019 continued in this way, we could see a noticeable bounce back in longevity improvements.



Source: CMI calculations based on ONS data for England & Wales

The chart below shows the variation in annuity values for a 65-year-old male across previous core CMI models and the increase expected under varying estimates of the core CMI 2019 model (based on data to the end of Q3 2019). The central estimate assumes Q4 2019 deaths are the same as in Q4 2018. The high/low Q4 deaths scenarios assume the deaths over Q4 2019 are equal to the highest/lowest Q4 values over the previous decade.



If this rate of improvement bears out (i.e. Q4 2019 is in line with Q4 2018), then life expectancies (and liabilities) calculated under the next CMI model would be higher than under the corresponding CMI 2018 with core settings.

This rapidly changing picture is partly down to yearly volatility of mortality rates, but is compounded by the CMI increasing the reactivity of the core model to recent data from CMI 2018. Insurers and reinsurers will continue to consider carefully which CMI model to use, and how to calibrate it, when pricing and reserving. In doing so, they will take account of broader evidence, including the differing experience of different socio-economic groups, and so will not generally follow the core calibration of the model. Therefore, pricing and reserving bases will not, in practice, fully track the chart above. However, this analysis does demonstrate that the downward pressure on longevity pricing that has been dominant in recent years has, in the short term at least, partially abated as a result of the more recent experience.

Volatility expected going forward

Understanding the reasons for 2019's change in direction is challenging. We're currently in a period where there are multiple complex drivers for changes in mortality, both up and down, but with no clear "winner". It's likely that year on year improvements in the short term are going to be more changeable. Below we've set out some of the potential key drivers:

1 Public spending on Health and Care

In September 2019, the government reinforced its "end of austerity" message, announcing additional funding for the NHS (£6.2bn) and social care (£1.5bn). The funding injection may help ease the pressures on the public services which are likely to have been dampening recent improvements.

However, the director for the Institute for Fiscal Studies said NHS spending would still be 3% below its level of a decade ago and 9% lower in per person terms. The funding boost may not be enough, given increased demand from the ageing population.

2 Medical advances and use of technology

Medical advances will also contribute. For example, in the past 10 years an HPV vaccine has been offered in schools. This is expected to soon result in a noticeable drop in cervical cancer rates.

Conversely, the major risk of antibiotic resistance could influence future mortality rates at all ages. Drug resistant bloodstream infections have increased by 35% from 2013 to 2017. In 2019, the government set out its action plan to control the problem.

3 Lifestyle changes

Lifestyle choices which influence the population's health can also be a factor. For example, as those in lower socio-economic groups are more likely to smoke than those in higher groups, there could still be further longevity improvements in these groups.

2019 saw a decline in red meat sales, likely due to a combination of healthier eating and society becoming more environmentally aware. Various studies show that a reduction in consumption of red meat can have many health benefits, including reducing risks of cancer and heart disease. Policy changes such as the sugar tax may also change consumer behaviour.

However, these gains could be counteracted by the continuing trend of increasing obesity levels. UK obesity levels have increased from 15% in 1993 to 29% in 2017.

When/how much these factors influence mortality improvements is uncertain. Who in society will be impacted is also unclear, as the effects are unlikely to be uniform across socio-economic groups. For example, high obesity rates are more prevalent in the most deprived areas of the UK. The more affluent are also likely to be less reliant on the NHS. We may, therefore, see a continued difference between mortality improvements by socio-economic groups.

How will this impact risk transfer pricing?

The rapidly changing UK mortality picture poses a challenge for longevity specialists, both in terms of choosing which model to use and how to calibrate it.

As we've seen, insurers and reinsurers typically wait to see more data on emerging trends before reflecting potential views in market pricing. So, whilst we'll potentially see an increase in population life expectancy in the next CMI model, this is unlikely to result in an immediate bulk annuity pricing increase.

This is due to:

- Insurers and reinsurers typically adjust the CMI model calibration to reflect their view on different socio-economic groups that are more relevant to pension schemes.
- Some insurers and reinsurers haven't updated to the CMI 2018 model and so don't have to "reverse" the reserve release/price reduction.

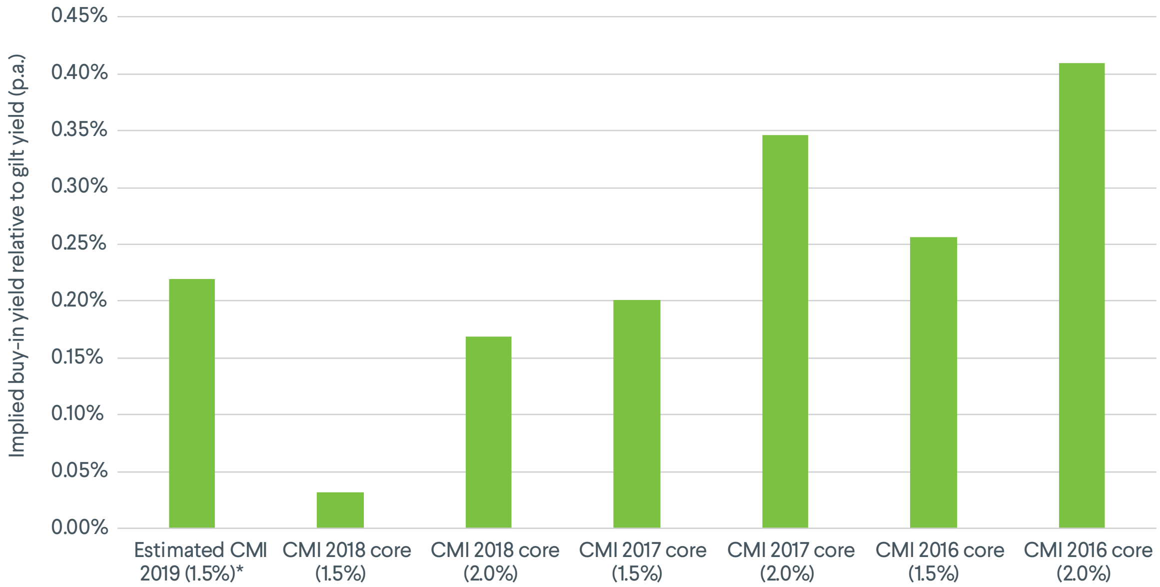
Insurer and reinsurer views will be their own. Their view will depend on their chosen data sources, how recent that data is, the model they use and their own interpretation of what this means. As a result, we may see greater variation in views across the market and a greater range in pricing.

Is the price right?

A buy-in provides longevity risk protection for the scheme. It's important to carefully consider the longevity assumptions used to assess the value of a buy-in transaction. Views on uncertain future improvements in longevity can impact decision making.

A given buy-in price may look attractive to trustees that allow for stronger improvements in life expectancy but unattractive to different trustees who assume lower rates of improvement.

The chart below shows how the implied return on a given pensioner buy-in quotation may appear for a range of demographic assumptions. Choice of CMI model and long term improvement rate are both relevant (latter shown in brackets).



*Estimated CMI 2019 figure based on published weekly deaths in E&W to Q3 2019, assuming Q4 deaths are in line with Q4 2018

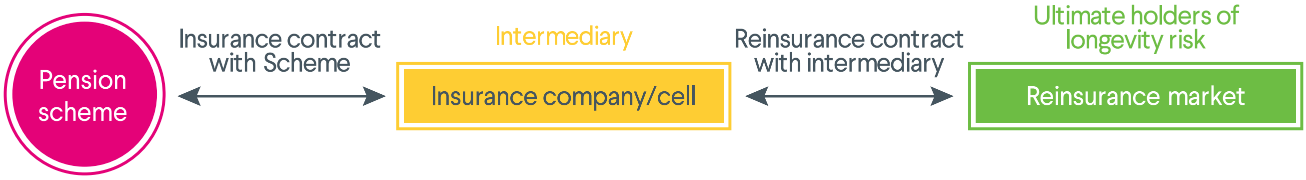
Trustee views can determine the attractiveness of a buy-in

This highlights the need to base decision making on the most accurate and up-to-date view of future life expectancy. Trustees also need to consider whether the "core" CMI model appropriately reflects the membership of their own scheme.

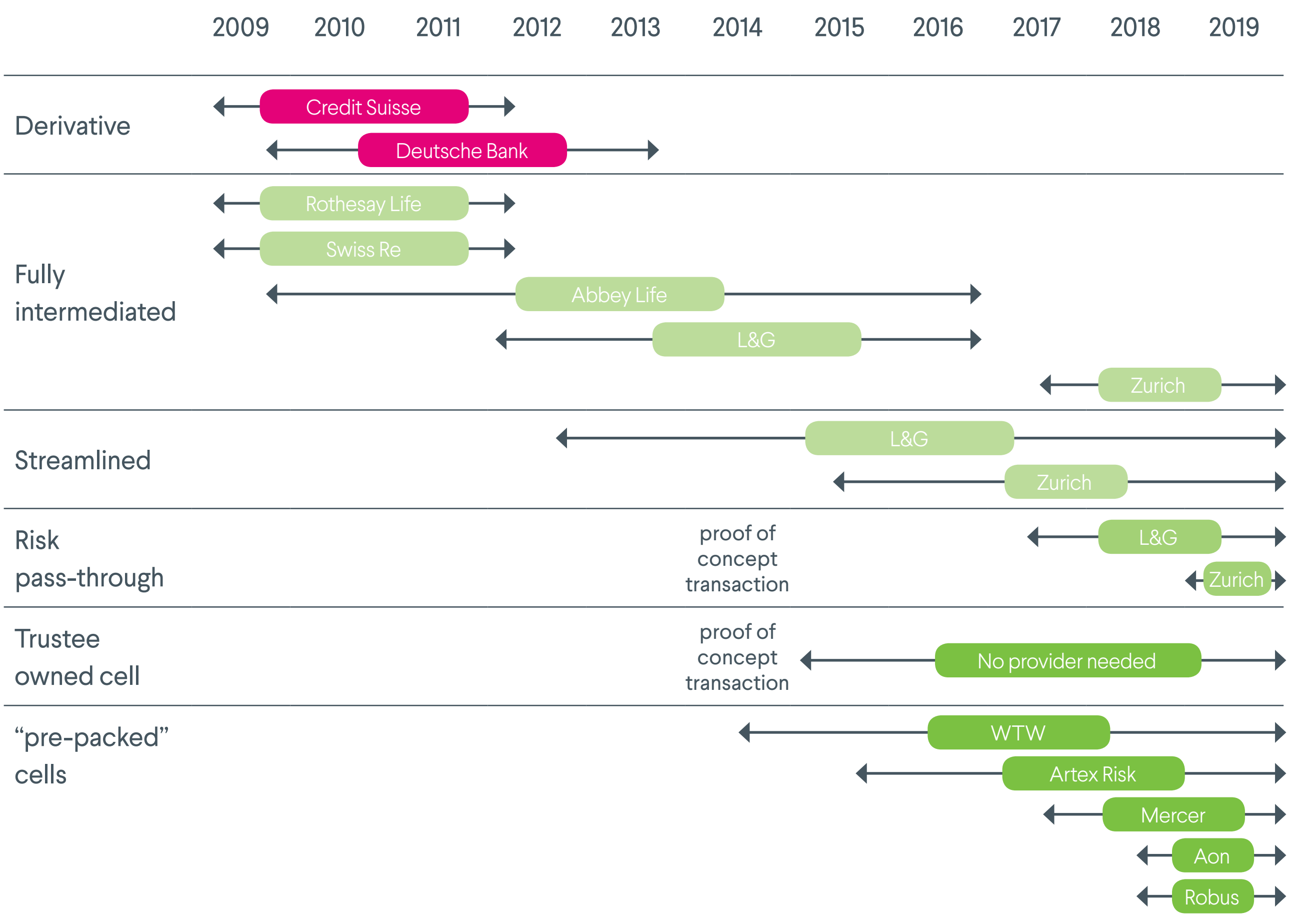
Considering these points early and having a clear approach to assessing buy-in pricing will ensure trustees and sponsors have confidence in their decision making and are able to act quickly when quotations are received.

Longevity swap structures

Longevity swaps transfer longevity risk from pension schemes on to reinsurers. As reinsurers can't contract directly with pension schemes, longevity swaps need an intermediary structure that sits between the pension scheme and the reinsurer(s).



The types of intermediary structures used has evolved over time, as has the market participants that offer these structures. The below diagram shows the broad evolution of the landscape of longevity swap intermediary structures, with current offerings on the right.



Please note: the above chart includes established longevity insurance cell providers, but may not be exhaustive.

Derivative contracts were used in some of the early longevity swap transactions, as this was the preferred structure for the banks that were heavily involved in the development of the market. The banks withdrew their appetite around 2012 due to changes to capital regulations and limited growth in market volumes. Insurance contracts now form the basis of all longevity swaps, with the intermediary structures coming in three basic flavours:

1. **Fully intermediated** – The pension scheme's only counterparty is the UK-based insurer and the scheme is not directly exposed to the counterparty risk of the reinsurer. So-called "streamlined" solutions are a type of fully intermediated structure, designed for smaller transactions with simplified contract terms (mainly reducing collateral requirements).

2. **Risk pass-through** – The longevity swap contracts are structured so that the pension scheme and the reinsurer are more directly exposed to each other as a counterparty. The intermediary insurance company only needs to cover payments to the pension scheme if it has received payments from the reinsurer.

The longevity and counterparty risk is passed straight through the intermediary onto the reinsurer and this makes these structures more capital efficient for the intermediary. This is therefore lower cost for the pension scheme.

3. **Trustee owned cell** – The pension scheme sets up its own insurance company which acts as the intermediary for the longevity swap. The pension scheme then enters into a longevity swap with this new insurance company, which reinsures the longevity risk with a reinsurer. As the pension scheme owns the insurer, the scheme remains exposed to the counterparty risk of the reinsurer. The new insurance company is typically set up in an offshore jurisdiction, due to reduced regulatory and capital requirements, and the ability to use an "insurance cell" corporate structure that offers some additional flexibility for future transactions. A few companies have set up offshore insurance cell entities that can be used as an alternative to a pension scheme setting up a completely new insurance cell.

	Fully intermediated	Risk pass-through	Trustee owned cell
Overall cost	🔴	🟡	🟢
Counterparty risk	🟢	🟡	🟡
Governance	🟢	🟢	🔴
Legislative risk	🟢	🟡	🔴
Operational risk	🟢	🟢	🔴

🟢 🟡 🔴 Traffic light colours represent relative merits of each intermediary structure

Please note: the above cost comparison is for a c£1-3bn transaction. Comparison is likely to vary for larger/smaller transactions, and for different types of solution under each category.

5 Pension scheme demand for insuring deferred members

Pricing improvements for deferred members means higher demand from pension schemes to insure their non-pensioners.

Non-pensioner transactions have been in the shadow of pensioner only transactions since the buy-in/buy-out market really took off in 2006. As a result, there is a common perception that unless they find themselves on a burning platform, trustees are better off following a low risk strategy while waiting for

Why have non-pensioner transactions historically been seen as less attractive?

Level of capital.

Writing insurance for non-pensioners is fundamentally more expensive than for pensioners as insurers are required to hold more capital to support the longer term nature of non-pensioner transactions.

Typical trustee investment strategies.

Trustees typically target much higher returns for non-pensioners backed by growth assets than their pensioner population implicitly backed by lower yielding assets generating cashflow. So, insurance pricing is viewed as relatively more attractive for pensioners.

Complexity.

It's more complex to align benefits with the payments provided by a buy-in before members have exercised their retirement options. This leads to a greater risk of mismatches between benefits covered and those payable from the Scheme. Mismatch drivers can include differences in actuarial factors, additional member options, etc.

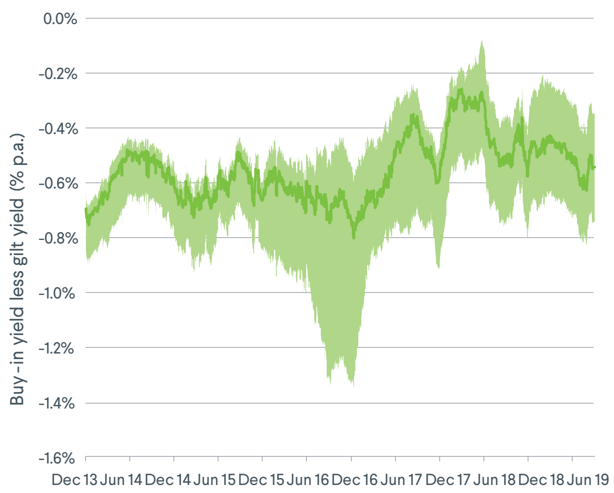
What has changed?

Improved scheme funding levels and increasingly de-risked investment strategies are accelerating schemes towards the end of their journey plans. There's also greater understanding of the additional longer term risk reduction offered by non-pensioner transactions. This has increased scheme demand which in turn is helping to drive insurer and reinsurer engagement. That engagement is leading to market developments driving improved pricing with:

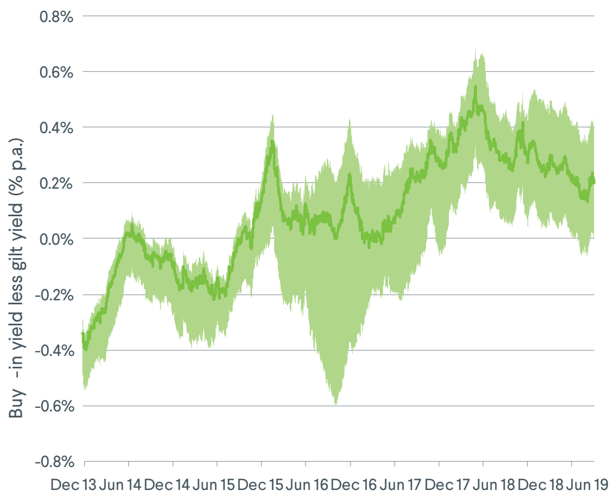
Increased competition between insurers.	Most insurers active in the bulk annuity market are now able to write deferred annuities, with the remainder actively working on this.
Focus on asset sourcing at longer durations.	Insurer asset strategies have increasingly looked to source higher yielding income generating assets with longer durations to reduce allocations at longer terms to risk free assets.
Reflecting member options in pricing.	Insurers are more willing to take advanced credit when pricing for the reduced future capital requirements if some members transfer or take a lump sum at retirement.
Developments in reinsurance market.	A number of reinsurers have been developing their non-pensioner pricing capabilities which has increased competition. They have also been more able to include flexibility necessary to amend the insured benefits to accommodate transfers and lump sums.

How has pricing for non-pensioners changed when compared to pensioners?

Non-pensioners



Pensioners



As can be seen in the charts above, despite the developments over the last 12-18 months, pensioner liabilities continue to be more keenly priced relative to holding a portfolio of gilts to back the liabilities.

What impact might this have on transaction structuring?

As pensioner pricing is still lower, we continue to expect that most schemes will prioritise pensioner only transactions. However, improvements in deferred pricing mean that trustees may see the additional cost as more reflective of the additional risk reduction from settling longer term benefits. Some trustee boards are therefore willing to structure a transaction including non-pensioner members.

Example transaction structures

Let us consider a sample pension scheme that is focussed on maximising risk reduction from exchanging a gilt portfolio for a buy-in. When structuring a buy-in, i.e. deciding the individual members to cover, the scheme will consider the pricing "yield" offered relative to the assets given up and will therefore seek to achieve a yield in excess of the relevant gilt yield.

The table below shows the maximum proportion of non-pensioners that can be included within the transaction dependent on the yields available for pensioner and non-pensioner members. As expected, non-pensioners can be supported to a greater extent as pricing improves.

Improvements in deferred pricing over the last year are similar to moving from the far left of the table to the middle. (i.e. the blue box compared to the green box). We can see that it is now possible to include significantly more non-pensioners than has previously been the case.

As we've shown, improvements in non-pensioner pricing make it much more feasible for schemes to transfer significant non-pensioner liabilities to the insurance market. We expect this to be one of the key developing trends over the next 12-18 months.

Improving pricing increases amount of non-pensioner benefits that can be covered for a fixed target buy-in yield

yield in respect of pensioners (p.a.)					
0.50%	43%	48%	55%	64%	78%
0.40%	37%	42%	49%	59%	74%
0.30%	31%	35%	42%	52%	68%
0.20%	23%	26%	32%	41%	58%
0.10%	13%	15%	19%	26%	41%
0.00%	0%	0%	0%	0%	0%
	-0.50%	**-0.40%**	**-0.30%**	**-0.20%**	**-0.10%**

yield in respect of non-pensioners (p.a.)

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Insurer summary insights

Aviva

2009 to end of H1 2019

Transactions completed	Value of transactions	Average transaction size
›475	› £11bn	£23m

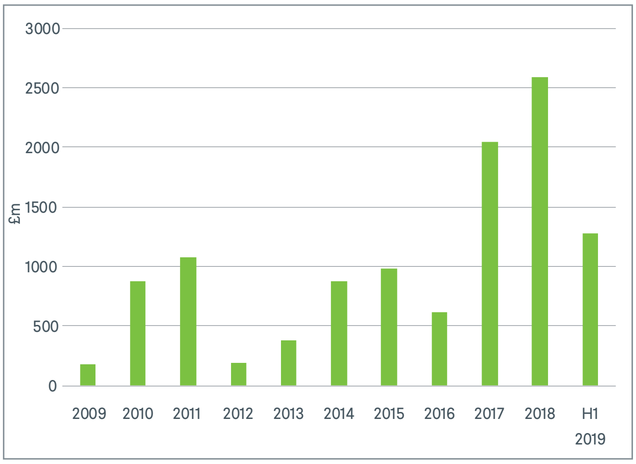
Twelve months ending 30 June 2019

Market share	Number of transactions	Average transaction size
7%	55	£42m

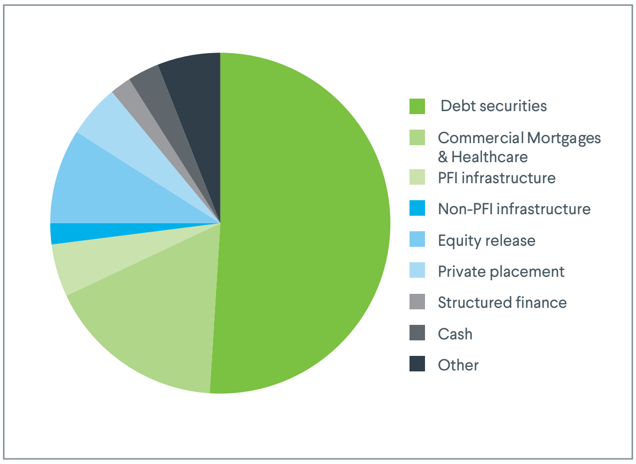
Noteworthy recent transactions

In October 2019 Aviva completed a £1.7bn buy-in with the Aviva Staff Pension Scheme, their largest transaction to date.

Volume of DB annuity transactions



Annuity asset strategy



Source: BPA and Private Debt Seminar – 22 January 2018

Financial strength – Aviva Life & Pensions UK Limited

AKG	Fitch Rating	Moody's Insurance Financial Strength Rating	S&P Financial Strength Rating
"A" (superior) (March 2019)	AA- (November 2019)	Aa3 (November 2019)	AA- (July 2019)

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Recent developments

Aviva have continued during 2019 to grow their activity in all areas with their £1.7bn deal with their own pension scheme expected to put their 2019 full year volume to over £3bn.

Canada Life

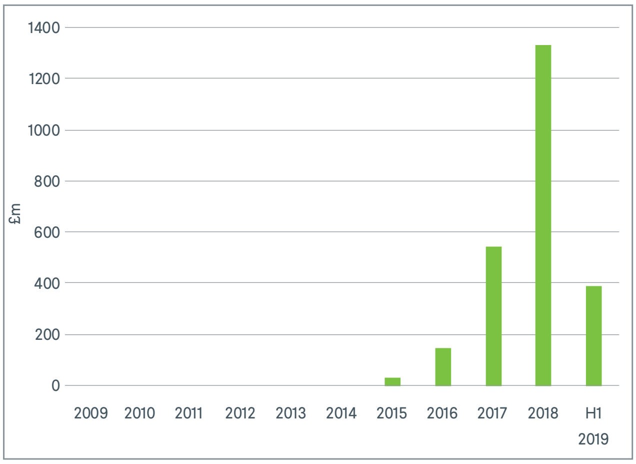
2009 to end of H1 2019

Transactions completed	Value of transactions	Average transaction size
21	£2.4bn	£116m

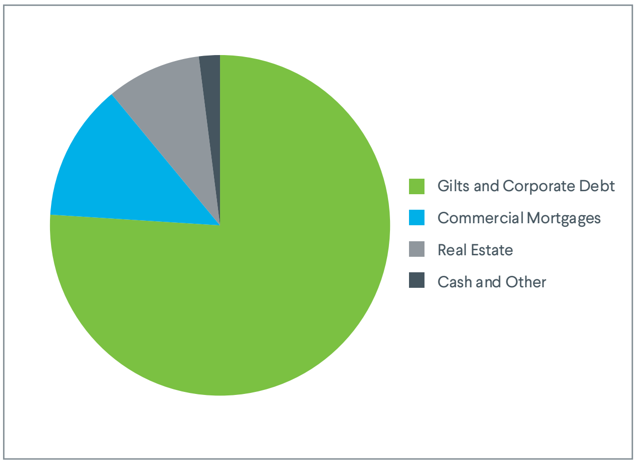
Twelve months ending 30 June 2019

Market share	Number of transactions	Average transaction size
5%	9	£191m

Volume of DB annuity transactions



Annuity asset strategy



Source: Canada Life, 31 March 2019

Financial strength – Canada Life Limited

AKG

"B+" (very strong)

(July 2019)

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Recent developments

Canada Life continue to write a relatively small number of transactions, focussing on increasing the size of transactions over 2019.

Insurer summary insights

Just

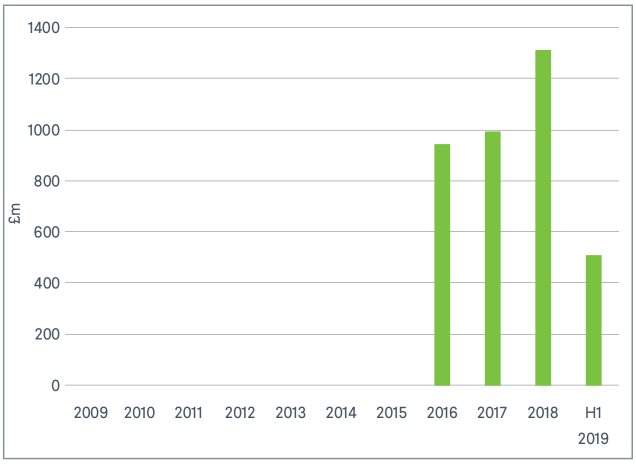
2016 to end of H1 2019

Transactions completed	Value of transactions	Average transaction size
›75	£3.8bn	£49m

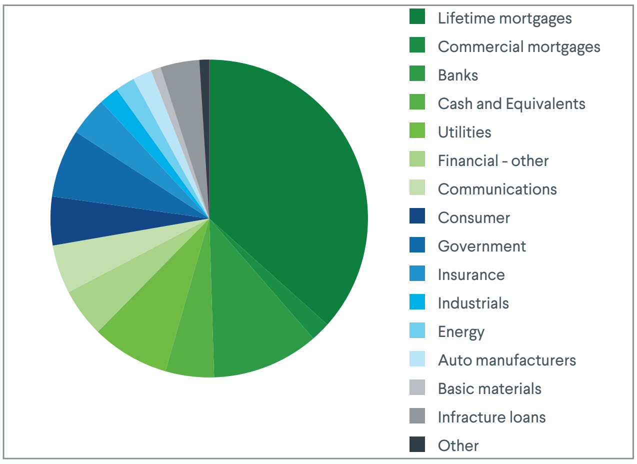
Twelve months ending 30 June 2019

Market share	Number of transactions	Average transaction size
3%	28	£40m

Volume of DB annuity transactions



Annuity asset strategy



Source: Just, 2018 Results Presentation

Financial strength - Just Retirement Limited

AKG

"B+" (very strong)

(November 2019)

Fitch Rating

A+

(July 2019)

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Insurer summary insights

Legal & General

2009 to end of H1 2019

Transactions completed	Value of transactions	Average transaction size
›650	›£34bn	£53m

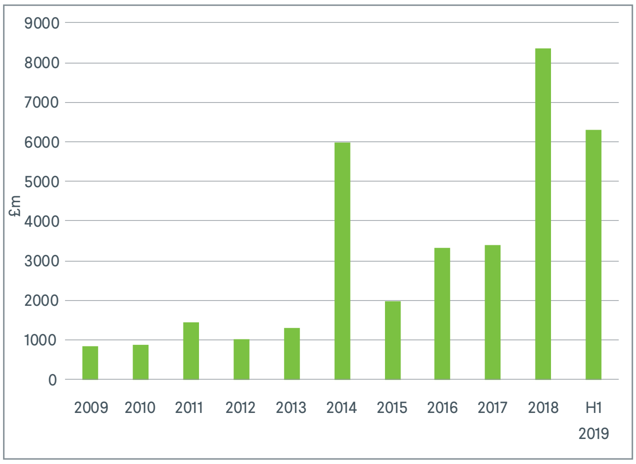
Twelve months ending 30 June 2019

Market share	Number of transactions	Average transaction size
42%	26	£545m

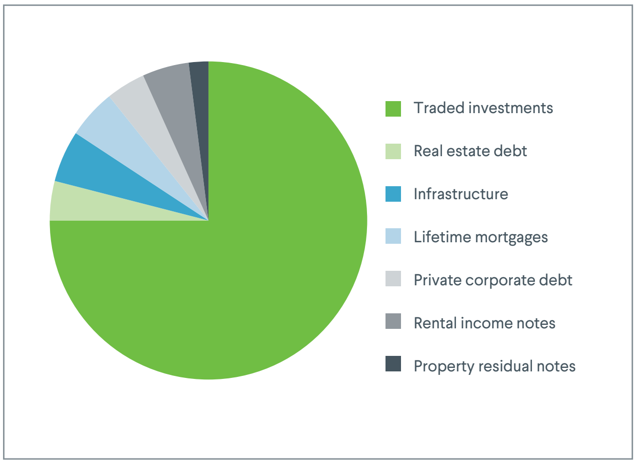
Noteworthy recent transactions

Legal & General completed a £4.6bn partial buy-out with the Rolls-Royce UK Pension Fund in June 2019, and a £1.6bn buy-in with the National Grid UK Pension Scheme in November.

Volume of DB annuity transactions



Annuity asset strategy



Source: Legal & General, 2018 Results Presentation

Financial strength – Legal & General Assurance Society

AKG	Fitch Rating	Moody's Insurance Financial Strength Rating	S&P Financial Strength Rating
"B+" **(very strong)** (February 2019)	**AA-** (July 2019)	**Aa3** (June 2017)	**AA-** (July 2019)

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Recent developments

L&G stated in November 2019 that they expected to have transacted £11.5bn of bulk annuities during 2019 by the end of the year.

Insurer summary insights

Pension Insurance Corporation (PIC)

2009 to end of H1 2019

Transactions completed	Value of transactions	Average transaction size
›190	›£33bn	£172m

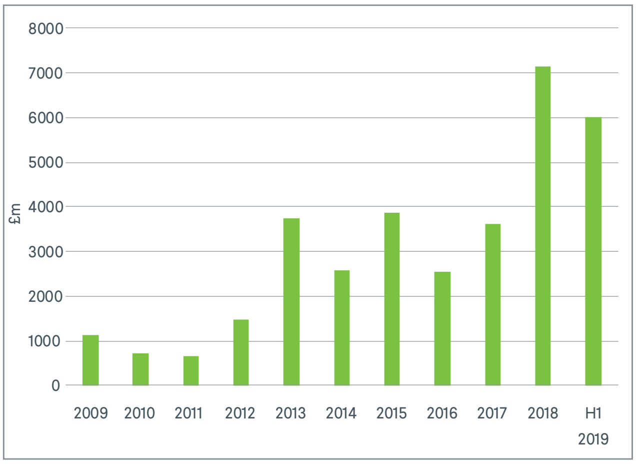
Twelve months ending 30 June 2019

Market share	Number of transactions	Average transaction size
29%	23	£430m

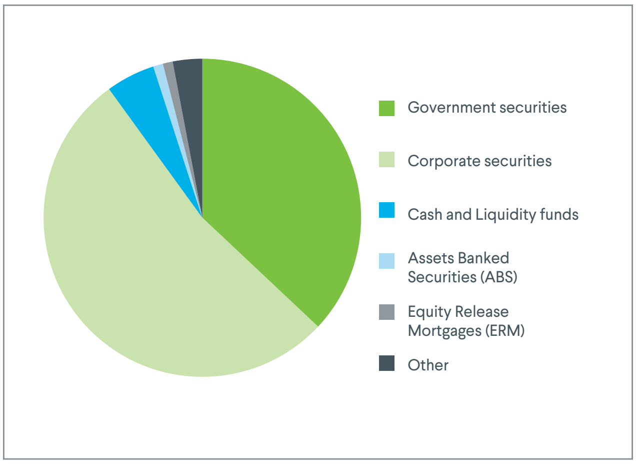
Noteworthy recent transactions

PIC completed their largest transaction to date during 2019, the £3.4bn buy-in with The British American Tobacco UK Pension Fund. In 2019, they also completed a £1.2bn buy-in with the Dresdner Kleinwort Pension Plan, a £900m buy-in with the Marks & Spencer Pension Scheme and a £750m buy-in with the Scottish Hydro Electric Pension Scheme, which converted an existing longevity swap.

Volume of DB annuity transactions



Annuity asset strategy



Source: PIC, Annual Report and Accounts for the year ended 31 December 2018

Financial strength - Pension Insurance Corporation plc

AKG	Fitch Rating
"B" (strong) (August 2019)	**A+** (May 2019)

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Insurer summary insights

Phoenix

2009 to end of H1 2019

Transactions completed	Value of transactions	Average transaction size
6	£3.5bn	£587m

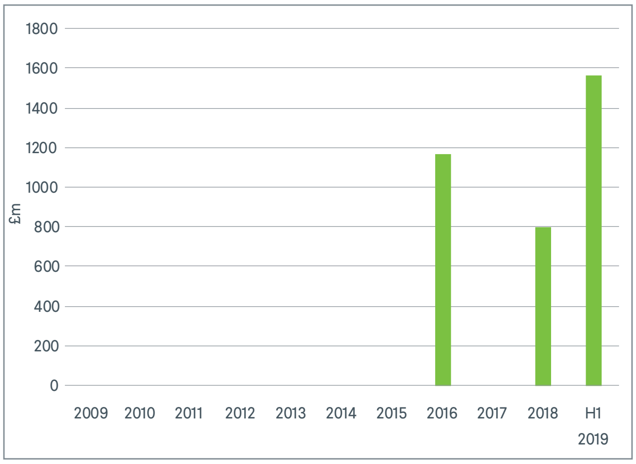
Twelve months ending 30 June 2019

Market share	Number of transactions	Average transaction size
6%	4	£472m

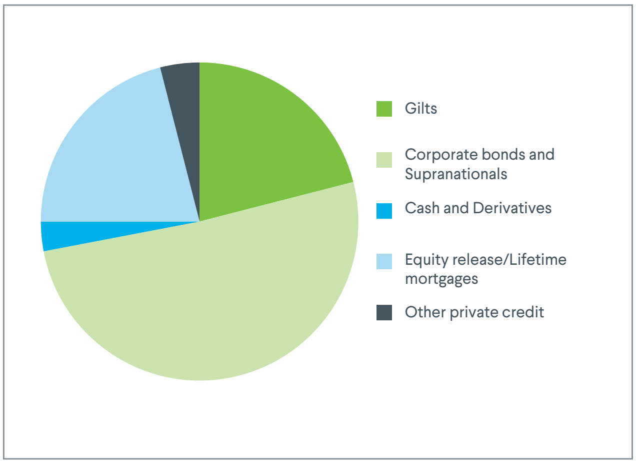
Noteworthy recent transactions

Phoenix completed a further £1.1bn buy-in with its own DB plan, the PGL Pension Scheme, in August 2019. This covered the remaining pensioner and deferred members of the scheme not covered by the initial £1.2bn buy-in in 2016. They also completed a £470m buy-in with the Marks & Spencer Pension Scheme.

Volume of DB annuity transactions



Annuity asset strategy



Source: Phoenix, 30 June 2019

Financial strength - Phoenix Life Limited

AKG

"B" (strong)

(November 2019)

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Recent developments

Phoenix's 2019 buy-in with their own PGL scheme is notable due to the inclusion of deferred members. Phoenix are not yet quoting externally for deferred pensioners but we expect that this is a significant step in that direction. In December 2019, the proposed sale of Reassure by Swiss Re to Phoenix was announced. Like Phoenix, Swiss Re specialises in consolidating closed life insurance books.

Insurer summary insights

Rothesay Life

2009 to end of H1 2019

Transactions completed	Value of transactions	Average transaction size
›40	›£11bn	£288m

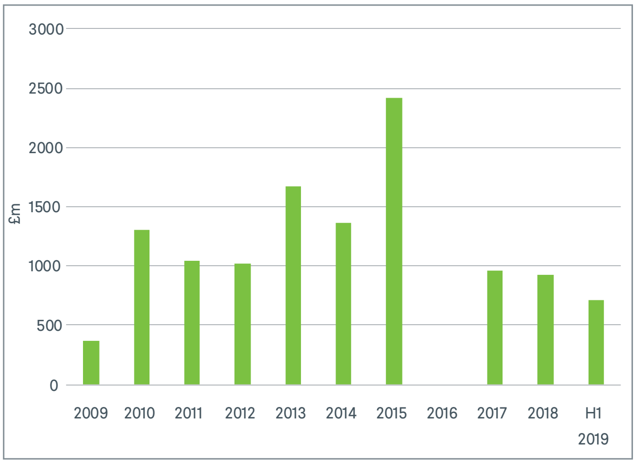
Twelve months ending 30 June 2019

Market share	Number of transactions	Average transaction size
4%	8	£184m

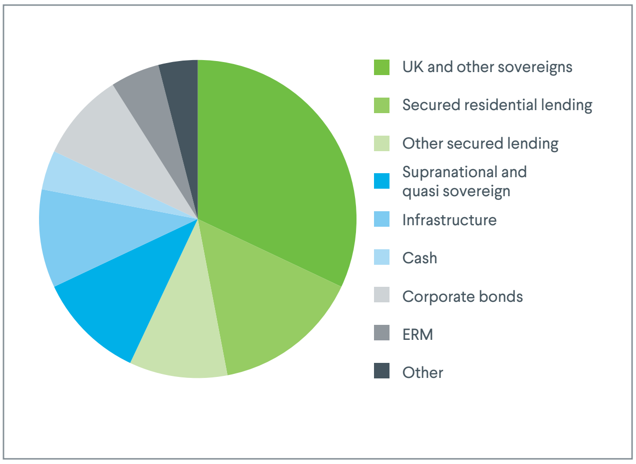
Noteworthy recent transactions

Rothesay Life completed four of the largest transactions announced during 2019: the £4.7bn buy-in with the Telent Pension Scheme, the £3.8bn buy-in with the Allied Domecq Pension Fund, the £3.8bn buy-out with the Asda Group Pension Scheme and the £2.8bn buy-in with National Grid UK Pension Scheme. They also completed a £520m buy-in with the Cadbury Mondelēz Pension Fund during 2019.

Volume of DB annuity transactions



Annuity asset strategy



Source: Rothesay Life, Annual Report and Accounts for the year ended 31 December 2018

Financial strength - Rothesay Life plc

AKG	Fitch Rating	Moody's Insurance Financial Strength Rating
"B" (strong) (February 2019)	**AA+** (June 2019)	**A3** (July 2018)

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Recent developments

In August 2019, the High Court declined to sanction the transfer of £12bn of annuities from The Prudential Assurance Company Limited to Rothesay Life (see article on page 15).

Scottish Widows

2009 to end of H1 2019

Transactions completed	Value of transactions	Average transaction size
25	£5.1bn	£202m

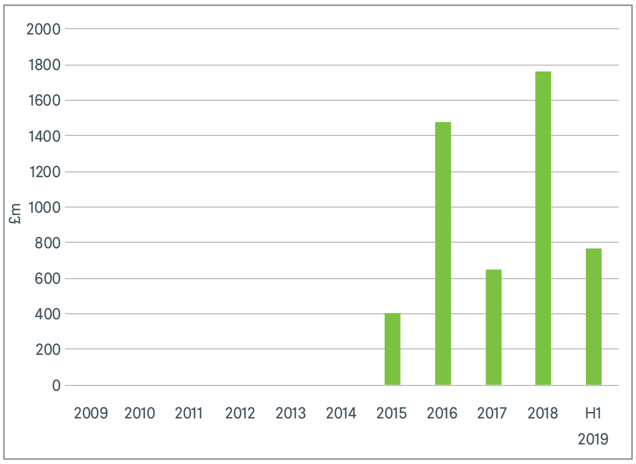
Twelve months ending 30 June 2019

Market share	Number of transactions	Average transaction size
4%	8	£179m

Noteworthy recent transactions

Scottish Widows completed a £690m buy-in with the QinetiQ Pension Scheme in April 2019.

Volume of DB annuity transactions



Financial strength - Scottish Widows Limited

AKG	Fitch Rating	Moody's Insurance Financial Strength Rating	S&P Financial Strength Rating
"B" (very strong) (March 2019)	**AA-** (December 2019)	**A2** (December 2019)	**A** (July 2019)

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