HYMANS ROBERTSON

Risk Transfer Report 2024

Your annual overview and analysis of the risk transfer market

Welcome to our unique insight into the risk transfer market

Higher interest rates brought unparalleled demand in 2023

After the market volatility of 2022, many DB pension schemes could capitalise on their improved funding position and approach the insurance market for quotations in 2023. We expect 2023 to have been a record year for risk transfer transactions, characterised by a shift towards full-scheme buy-ins, many multi-billion-pound buy-ins and a sustained change in market dynamics as insurers felt the resourcing pinch driven by high demand.

However, demand did not affect pricing, which remained competitive. High demand drove innovation from some insurers, and helped to bring about the return of M&G, which had exited the market many years ago.

We expect demand to continue growing in 2024 as more schemes move closer to their endgame objective and seek quotations. If trustees want insurers to give their pension scheme a high priority, they need an appropriate broking process. They also need their governance, investment, data and benefits to be transaction-ready.

I'm delighted to share our eighth annual report, where we track the changes in the bulk annuity market and look at what these changes could mean for your DB pension scheme.

We explore five areas:

We have led risk transfer transactions:

totalling more than **£30 billion**

ranging from **£5 million** *to* **£5 billion**

including 25 transactions with **FTSE100** sponsors

In 2022–2023, we:

grew our team by **33%**

won **Team of the Year** at the **Professional Pensions Rising Star Awards 2022**

were chosen **by the PPF** as one of four firms for a new industry-leading buy-out panel

won **Risk Reduction Adviser of the Year** at the **UK Pensions Awards 2023**

We also summarise how transaction volumes have changed since the market took off in 2007, and share insights on each insurer in the market.

I hope you find our report helpful for your journey towards your pension scheme's long-term goal. Together, we can build better futures for your pension scheme members.

We'd love to hear from you. If you have any comments or questions about anything we cover, please don't hesitate to get in touch with me, or one of the authors listed on page 31.

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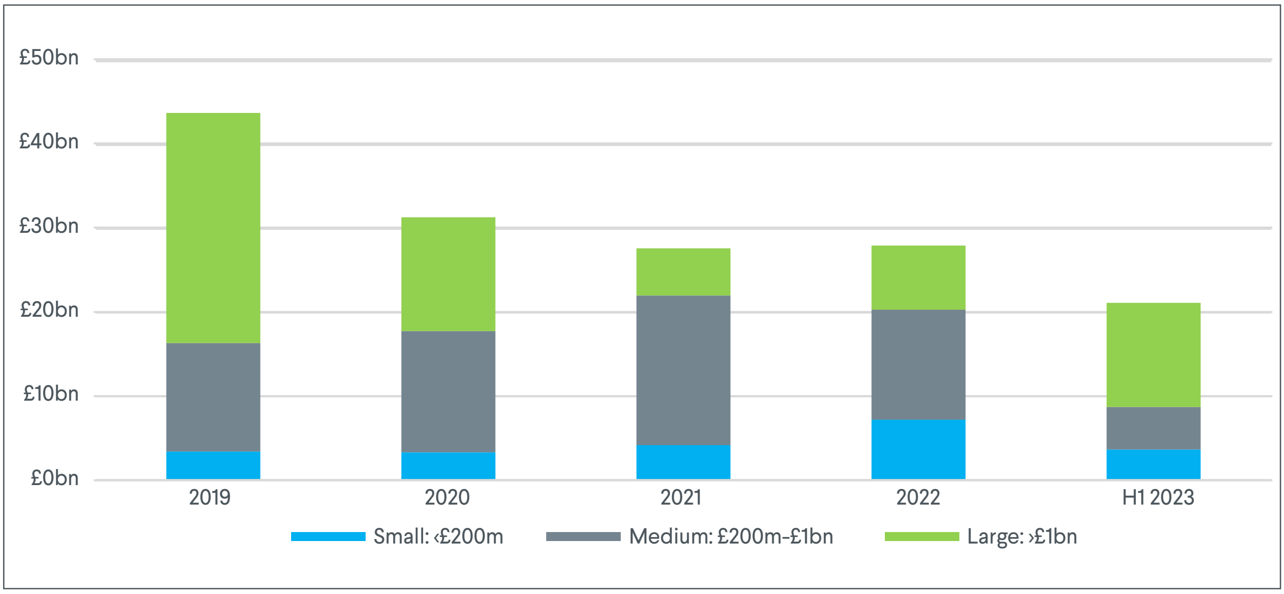
Bulk annuity insurers overview

2023 in review

By Paula Haughton

Last year was a big year for risk transfer transactions. It was characterised by a shift towards full-scheme buy-ins, many multi-billion-pound buy-ins and a sustained change in market dynamics as insurers felt the resourcing pinch driven by high demand. Many schemes' funding levels continued to improve, making a buy-in affordable.



We also saw the first (re)entrant to the buy-in market in six years and the first superfund transaction. The government and the Pensions Regulator (TPR) signalled more openness for even very well funded schemes to consider alternatives to buy-in and buy-out, for example a long-term run-off strategy.

For schemes that choose to buy-in or buy-out, data and benefit readiness is important. These schemes also need to deal with illiquid assets to fund a buy-in. On page 21 we explore the journey to buy-out and the need for early preparation, and on page 8 we consider how schemes can deal with illiquid assets.

Small deals

In a busy market, small schemes need special consideration to help build engagement from insurers. Some schemes have worked exclusively with one insurer. On page 15 we explore how trustees may make an informed choice between an exclusive and a competitive broking process.

Large deals

In February 2023 PIC announced it had concluded buy-ins with the trustees of two schemes sponsored by RSA Group, totalling £6.5bn. In November Legal & General announced a £4.8bn buy-in with the Boots Pension Scheme. These are the largest ever DB pension scheme transactions completed with an insurer. We explore the impact of large deals on the insurance market on page 17.

A busy market focused on whole-scheme buy-ins

Whole-scheme buy-ins continued to dominate the market, and we expect this trend to continue as better funding levels put full buy-in within reach for more schemes.

New entrants

In early 2023, M&G (formerly Prudential) announced its re-entry into the bulk annuity market (it exited in 2016). This marked the first increase in insurers in the market in six years, and other providers are reportedly looking to enter the market. Canada Life expanded its offering from pensioner-only buy-ins to those that include deferred liabilities. On page 19 we detail considerations for trustees looking to transact with newer insurers and what insurers looking to enter the market need to think about.

Alternatives to buy-in and buy-out

The government's 'Mansion House reforms' helped to stimulate debate among pension schemes and their sponsors about alternatives to buy-in and buy-out, including running off a scheme over the long term. We discuss these alternatives on page 13.

Solvency UK

The Prudential Regulation Authority (PRA) issued two consultations in 2023 on changes to Solvency II for the UK, in particular changes to the risk margin and matching adjustment. We explore these changes on page 25.

A growing team

In 2023 Hymans Robertson's risk transfer team expanded as we hired four senior specialists, putting our team in a great position to support our clients over the expected busy years to come. Together with Lara Desay who joined the team in 2022, Harry Allen, Louise Lane, Paula Haughton and Verity Hastie have 70 years of risk transfer experience between them. Verity's appointment means that we have three senior specialists with the in-house insurer experience that's so valuable to trustees and sponsors when developing their insurance strategy.

Market outlook for 2024

By Claire O'Neill

When we wrote our market outlook for 2023, we started by saying that 'market dynamics have changed significantly in the past few months', predicting a record year for bulk annuity transactions in 2023 and a capacity crunch on the supply side. A year on, the risk transfer market continues to change and grow quickly.

Strong demand

Demand for bulk annuities grew sharply in 2022 as UK DB schemes became better funded. Even though other options are available, many schemes and their sponsors are still targeting insurance as their endgame. We therefore expect demand for bulk annuities over the coming years to remain high.

We expect most future bulk annuity (buy-in) transactions to cover all known members of the scheme, continuing a trend that started in 2022. Before then, pensioner-only buy-ins dominated, and most trustees expected to fully insure their schemes through a series of buy-ins. The more recent trend of insuring all members' benefits is leading to larger transactions, and we expect several buy-ins in 2024 to exceed £2bn.

We also expect more transactions for schemes with liabilities of less than £200m. Producing quotations is time-consuming and expensive for insurers, with a high proportion of costs fixed. As a result, many insurers have historically prioritised large transactions, where there's a bigger prize on offer for similar up-front costs. In recent years, insurers have increased standardisation and streamlined processes for small deals in an attempt to get more out their financial and human resources – resulting in better access to the small end of the market. We expect further developments in 2024, and more insurers could be better able to quote for small schemes.

A measured approach

Despite being well enough funded, many schemes chose not to approach the market in 2023. With demand for insurer quotations so high, it's more important than ever for schemes to present a well prepared package to insurers. Many trustees therefore prioritised planning for a medium-term transaction instead. We expect a steady stream of well prepared schemes approaching the market for quotations in the coming years.

Pension scheme trustees consider price and non-price factors when choosing an insurer. Non-price factors include ESG credentials, administrative capabilities and the insurer's track record. Increasingly, trustees are taking the time to work out which factors are the most important for their scheme's circumstances before deciding which insurers to approach for a quotation, leading to fewer 'whole-of-market' broking processes in favour of a more targeted approach. In some circumstances, this may extend to selecting one insurer to work with. Where sponsors contribute funds to enable buy-out, or have an interest in any surplus, they want to ensure that trustees are still getting good value for money.

More capacity and more alternatives?

If 2023 was about demand, 2024 is likely to be about supply. High demand and the potential for large transactions are attracting insurers that aren't present in the bulk annuity market. Others are developing their offerings, against the background of a burgeoning alternative risk transfer market.

In 2023 M&G's re-entry increased the number of insurers in the market for the first time since 2017. M&G's re-entry has increased capacity, and we expect more insurers to enter the market in 2024. New entrants increase choice for trustees, but also raise questions.

M&A activity among insurers may change capacity. It could bring in fresh capital and boost supply, but could also reduce supply as insurers consolidate. The market last saw consolidation in the mid-2010s, and could see it again as the number of players grows.

The industry has been talking about alternatives to buy-in and buy-out for a while. Discussions were stimulated in July 2023 by the Chancellor's Mansion House reforms, and the first superfund transaction announced by Clara-Pensions in November. Many see this transaction as a 'proof of concept' that will open the way to more superfund deals in 2024.

As well as superfund consolidators, alternatives to 'traditional' insurance include capital-backed journey plans, master trusts and captive insurance. Schemes also have the option of running on and letting assets mature. Run-on could become more attractive in the coming months if the government's proposed reforms to DB regulation (announced as part of the Mansion House reforms) come through – although with a general election due this year, the proposals may not see the light of day in their current form.

Investment influence

Investment-related hurdles to a transaction – and how to overcome them

By Louise Lane and Nell McRae

A period of crisis or volatility often breeds solutions and creativity in response. In last year's report, we discussed the immediate impact of gilt market volatility on pension schemes, and speculated about the potential knock-on effects on risk transfer activity.

Since then, trustee boards, providers and the industry have risen to the occasion. Through a variety of innovative approaches, schemes have not only continued to transact but, in many cases, have taken advantage of highly attractive pricing opportunities.

Here we explore some investment-related hurdles that schemes must overcome when preparing for a transaction. We also share some recent case studies and outline important steps that could put schemes in the best possible position to transact.

Dealing with illiquidity

Schemes on a journey to transfer risk to an insurer have probably already planned to wind down any illiquid allocations. However, as we entered 2023, many schemes were materially overweight to illiquid assets. The value of traditional fixed income or liability-driven investment (LDI) allocations fell in response to yield rises, whereas illiquid valuations generally held up better.

Many schemes then found themselves closer to affording buy-out than they previously expected, especially if they had not been fully hedged against interest rate and inflation risk when yields rose (and prices fell). Illiquid asset exposure quickly became a high-priority issue for such schemes. They had to determine whether they could take advantage of market pricing or whether their illiquids would be a barrier to securing their existing positions through a transaction.

There is a spectrum of options for dealing with illiquid assets, and costs and implications vary. The main trade-off is cost (in effect the size of discount a scheme would accept on an asset) versus the speed at which a scheme can access cash for that asset.

We outline the main options below.

	Run off until underlying assets mature	Sell on secondary market	Pass to insurer as part of premium	Make a liquidity arrangement with a third party (eg a loan secured against illiquid holdings)
Advantages	Scheme retains potential upside Scheme avoids costs associated with sale	Quicker access to liquidity	Certainty of cost enables integration into transaction Quicker access to liquidity	Immediate liquidity The potential to deal with only one party Ability to optimise the illiquid asset over time
Disadvantages	Slower increase in liquidity, potentially delaying transaction Deferred premium approach may need to be considered Scheme remains exposed to asset class volatility	Discounts of 10–30%* or more currently being quoted in secondary markets (depends on asset class) Broker fees Scheme loses potential upside as assets mature Certain assets may not be attractive, eg older private equity exposure	Very few examples so far, due to capital treatment of typical illiquid asset classes for lenders Discount will be applied and may be greater than secondary market	High costs High discounts applied to value of the underlying illiquid assets against which the loan is secured – pay for the convenience Leaves scheme exposed to timing and level of income and sales

* actual or quoted pricing observed on clients during 2023

Deciding on the best option is important for schemes with illiquid assets that are seriously thinking about an insurance transaction. The most appropriate option depends on the funding position and the proportion of illiquid assets in the overall investment strategy.

CASE STUDY

The art of the possible - including illiquids in the insurer price lock

Collaboration between all the parties in this example led to the insurer agreeing to include one of the pension scheme's directly held property assets within the proposed premium and resulting price lock structure. The property asset made up just under 10% of the premium and was subject to an agreed haircut of around 7%. Ownership of the property was then transferred to the insurer when the buy-in took effect. This unusual example highlights the art of the possible and illustrates that it can be worth exploring all avenues.

Wider innovation

We continue to see evolution and innovation to deal with illiquidity in asset markets generally, whether schemes are using these to transact with an insurer or simply to increase short-term liquidity to meet cash flow requirements, or support LDI arrangements. In the medium to long term, these solutions could all help improve pension schemes' ability to transact with an insurer from a liquidity perspective.

The solutions include:

- **Asset-backed loans.** In a recent deal representing an innovative take on a traditional third-party liquidity arrangement, a scheme entered a loan agreement with a counterparty guaranteed on its existing bulk annuity contract. The loan boosted short-term liquidity and protected hedging arrangements. The repayment terms are based on the expected run-off of the scheme's illiquid assets, and scenario analysis ensured a high degree of confidence in the ability to meet the repayment schedule.

- **Direct secondary trades.** From other significant institutional investors with potentially lower discounts negotiated. This reduces the need for brokers and fees, but can reduce the number of potential buyers and introduce conflicts of interest for advisers with relationships to both parties.

- **Private debt secondaries.** This market has grown quickly, and it gives sellers more potential exit routes.

- **Passing to other third parties.** This might include a sale of an illiquid asset holding back to a manager or agreeing for a sponsoring company to take an asset onto its balance sheet for an agreed price. By engaging with managers and being clear around schemes' objectives and liquidity needs, opportunistic solutions can emerge.

CASE STUDY

Asset manager as the third party transferring an illiquid asset to the asset manager

A pension scheme agreed to sell its remaining private credit exposure to the asset manager to help facilitate a full-scheme buy-in. The asset manager was offering a more attractive discount (20%) than the secondary market pricing on offer, and could facilitate a quick deal. The trustees deemed this route more appropriate than deferred premium, given the sponsor's preference for certainty of liquidity, allowing the scheme to be nimble and ready to transact in full.

This arrangement meant all assets remaining after the deal were highly liquid and could be used to pay the buy-in premium. Open discussions with all stakeholders and being clear on the sponsor's priorities and risk appetite helped this scheme and its sponsor conclude this was the right approach.

Knowing what's in the cupboard

Illiquid holdings present an obvious challenge in moving forward with a transaction. But other areas of an investment portfolio can present difficulties if not properly built into planning. It's important to understand exactly what assets a scheme is holding and unearth any skeletons hiding in the portfolio cupboard early on in planning.

- **Segregated LDI portfolio skeletons.**
  Many portfolios hold legacy positions such as offsetting swaps. These don't present an issue when running the scheme on an ongoing basis, but they need to be dealt with when trying to crystallise a portfolio before a transaction or novate the positions to an insurer. This is especially true for a whole-scheme buy-out.

  Costs of closing out positions like this, particularly if trying to do so quickly, can add up, and achieving it at no cost can take years. The most cost-effective approach is often a phased plan with interim targets to reduce the positions in LDI portfolios with specified maximum costs. Trustees can then monitor progress against this plan.

  Understanding any repo exposure and how the maturity profile compares with transaction timescales is also important in short-term planning.

- **Legacy holding skeletons.**
  Schemes may have legacy holdings, such as small direct property holdings, very small exposures awaiting legal wind-up or holdings with no or limited value remaining under scheme ownership. These might be a small proportion of overall assets, but they still need to be dealt with if they're not being passed to the insurer as part of a transaction. Timescales for trading property, for example, can be prolonged (6–12 months is common), so there's no guarantee of an easy or quick sale.

- **Pooled fund skeletons.**

  Be aware what proportion of a pooled fund your holding makes up. This might have evolved since you first invested. Many funds have caps on what can be traded on any one dealing date, which can restrict the liquidity you can access at one time. Finding this all out ahead of time means you can factor this into your timings and potentially take action sooner or build phased actions into a suitable and sensible timetable.

What can you do?

We're encouraged by the creative solutions we've seen in practice over the past 12 months, bringing to life the art of the possible, and showing a willingness of insurers, sponsors, fund managers and trustees to think outside the box. We expect more innovation over the coming months and years as the industry continues to adapt to the current environment and the record-setting pace of risk transfer transactions is maintained, or further exceeded.

In the meantime, we encourage trustees to:

- **Review timescales for a potential transaction.** Being clear on where you stand relative to your endgame objective will help define your plan and the actions you take now versus what can be done later. It also helps shape what options are most suitable when it comes to areas like illiquid assets.
- **Monitor the market.** Make sure your adviser keeps you informed of the latest liquidity developments and secondary market opportunities. Even if you have evaluated your liquidity options and decided on a path, ensure your annual business plan includes a review process.
- **Evaluate the spectrum of liquidity options.** Carry out a cost-benefit analysis considering your funding position and any potential surplus position. Understand how the options for dealing with illiquid assets fit into your timescales. The longer the time, the less pressure to give up more upside or incur cost and resource to manage a sale. Does your funding position let you consider options with quicker access to liquidity? For example, using some surplus to accept a steeper discount to sell down an illiquid exposure in the short term.
- **Find those skeletons.** This may not be an exciting prospect, but if you know about a problem, you can find a solution. Knowing everything your scheme is exposed to, including the aspects of portfolios that are buried deep, reduces the risk of any unpleasant last-minute surprises.
- **Understand your pooled fund exposures.** Relevant for all schemes, this action will also reduce the chance of last-minute hiccups to a transaction.

The trustee perspective

Alternatives to buy-in and buy-out – a focus in 2024?

By Paula Haughton

Although many pension schemes see buy-out as their ultimate endgame, some won't find a buy-out feasible in the foreseeable future, or may prefer to consider other options such as running on.

Schemes not looking to buy out in the near term can choose a solution designed to shorten the time to the chosen endgame (whether buy-out or another endgame) or make reaching their endgame in a given period more likely. Third-party solutions include capital-backed journey plans, and insurance products that offer less protection than a buy-in. A scheme that meets the Pensions Regulator's (TPR's) gateway tests, such as not being able to buy out now or in the foreseeable future, could consider transferring to a superfund if it can meet the superfund's price.

Some schemes may be interested in DB consolidation, for example a master trust, although this is not strictly an endgame.

Transaction activity in 2023

Trustees and employers continued to explore alternative risk transfer in 2023, but most of the year passed without much activity. This was partly a result of better funded schemes with less need to explore accessing third-party capital and fewer schemes meeting the gateway tests for a superfund.

On 3 November, however, TPR gave clearance to the first superfund transaction, involving a transfer from the £590m Sears Retail Pension Scheme to Clara-Pensions, with a £30m third-party capital injection to help secure buy-out, which is targeted for 5–10 years from now. This deal paves the way for future superfund transactions, which are aimed at schemes that can't meet the cost of buy-out in the foreseeable future, but can meet the superfund's price – expected to be a little cheaper than a buy-out with an insurer.

Pension SuperFund Capital was reported to have transacted on a capital-backed funding arrangement in 2023. The aim of the arrangement is to underpin the funding level. By joining a new solvent employer to what becomes a 'last man standing' arrangement, the arrangement also aims to protect the scheme from a future Pension Protection Fund (PPF) insolvency event and associated wind-up before the scheme is in a secure position to provide full benefits on an ongoing basis.

Running on a scheme as an alternative to buy-out

An increasing theme for discussion is whether a scheme that's fully funded on a buy-out basis should buy out, or whether there's a good reason to run on for a period or indefinitely.

In 2023 the government and TPR signalled they were open to letting schemes that can afford to insure run on instead. The government is exploring how more pension scheme assets can be invested in 'productive finance' to help economic growth. A scheme could run on with the aim of building up a surplus that can be used for the benefit of the members or the employer. Figure 1 summarises recent government announcements, which could reshape the de-risking landscape if appetites to transferring risk reduce after any reforms.

In April, TPR issued its Annual Funding Statement 2023. It suggested schemes with a funding level at or above buy-out level should 'consider if proceeding with a buy-out either outright or in stages is the best way to lock in funding gains, whether running on the scheme is a better option for members as a way they may benefit from surplus, or whether the employer prefers an ongoing arrangement so that surplus can be used to fund scheme expenses, future accruals or potentially to benefit members in a DC section.'

On 10 July the Chancellor Jeremy Hunt announced the 'Mansion House reforms' – several initiatives to invest DB scheme assets in productive finance. These initiatives may encourage alternatives to buy-out. For example, developments around use of surplus while a scheme is ongoing could result in more schemes running on to make use of surplus, rather than buying out.

Several government consultations closed on 5 September. The Autumn Statement aligned taxation on surplus to the current corporation tax rate from April 2024, and the government announced further consultations (see Figure 1).

The industry is keenly awaiting the upcoming consultations. We expect some trustees and sponsors to be attracted to the increased support available for a run-off strategy and for surplus generation. The emerging consolidation market and the potential for the PPF to underpin full benefit entitlements could influence views. Trustees and sponsors could see both developments as significantly improving the downside risk protections.

However, we expect many sponsors to conclude that managing pension risk to target a profit is not a core business priority, and so continue to have a strong appetite to de-risk using insurance.

Figure 1. Recent government announcements that could affect the alternative risk transfer market

November 2022	July 2023	August 2023	November 2023
Solvency UK consultation A degree of loosening to allow insurers to invest in a wider range of assets	**'Mansion House reforms' speech by the Chancellor,** aiming to increase investment in British business **Solvency UK consultation response** Broadly in line with signposting, with implementation expected by mid-2024	**Government responds to superfund consultation** Signposting easing of superfund capital requirements and profit extraction framework	**Autumn statement** Aligning taxation on surplus to current corporation tax rate Consultations on: • Surplus extraction arrangements • PPF providing 100% coverage (for a higher levy) • PPF as a consolidator for 'underserved' schemes • Small pots

Exclusive broking processes – when less is more

By Iain Church

When approaching the insurance market for a buy-in or buy-out, pension schemes traditionally run an auction process with several insurers and then make a choice based on insurers' quotations. This approach can work well in many situations. If insurer engagement is good, an auction can build competitive tension and let trustees see a range of pricing from insurers before making a decision. However, another option is to run an exclusive process: choosing one insurer to work with up front, and then request pricing only from that insurer.

Exclusivity is already a well-trodden path. From analysing reported transactions and talking to insurers, we estimate up to 30% of the buy-in and buy-out market in 2022 was transacted this way. As the market continues to be busy, it's important to consider carefully which broking approach will best meet the needs of the pension scheme and sponsor. For some schemes, going exclusive could lead to a better outcome than a traditional auction process, but the right approach depends on the scheme's circumstances and needs.

For an insurer, a small transaction can be as resource-intensive as a large one, so insurers are increasingly focusing on larger transactions when their resources are stretched, as they are now. Exclusivity can be powerful for catapulting small schemes up an insurer's priority list – the certainty of selection, if the pricing is right, helps an insurer focus its efforts. Some insurers are making exclusivity a condition of quoting for a small scheme.

In our experience, exclusivity still leads to competitive pricing when done right. Established risk transfer advisers and professional trustees see a lot of market pricing, so they know what excellent pricing looks like. Insurers know that if they don't price appropriately, advisers and professional trustees are unlikely to proceed, and might not use them for exclusive processes in the future.

An exclusive process can also bring benefits beyond pricing and insurer engagement. In a competitive process, insurers can have less incentive to invest extensive resources towards tailoring the transaction structure, given the uncertainty of being selected. In an exclusive process, an insurer is generally more motivated to work on meeting scheme-specific requirements.

CASE STUDY

Illiquid assets

A pension scheme completed a pensioner buy-in following a competitive tender. The scheme's illiquid assets were a barrier to insuring the remainder of the liabilities, but working exclusively with the existing insurer over time, a bespoke solution was found for these assets combined with an attractive price for the remaining liabilities. This allowed the scheme to get to full buy-in earlier than originally expected.

Exclusivity or competition?

Deciding whether to run an exclusive or competitive process needs careful thought about the scheme's circumstances. The decision will depend on the market, the desired transaction structure and the scheme's and employer's wider objectives.

In a busy market, exclusivity might engage an insurer that wouldn't otherwise engage with a transaction of a certain size or type. It might encourage an insurer to adapt its standard offering to meet scheme-specific requirements.

CASE STUDY

Tight timeframe

A scheme needed a buy-in transaction to be completed in a condensed timeframe in the fourth quarter of the year, coinciding with one of the busiest times of the year as insurers focus on completing transactions before market liquidity dries up in early December. The scheme agreed to work exclusively with an insurer that was pricing competitively at the time. By structuring the process this way, the buy-in completed within six weeks of Hymans Robertson's appointment as risk transfer adviser – while capturing very attractive pricing.

Which insurer?

Selecting an insurer is an important part of the decision to go exclusive. Several factors could influence that selection:

- ***Financial strength of the insurer.*** This affects the strength of the covenant attached to the insurance policy.
- ***Member experience.*** After the buy-out, administration will be the insurer's responsibility, and schemes want a positive member experience. Schemes also want to understand how member option terms may change following buy-out.
- ***Brand.*** Trustees and employers may prefer particular insurers, due to existing institutional relationships or member perception.
- ***ESG.*** Schemes may have priorities around environmental, social and governance factors, so want to see an insurer's credentials in these areas, including how the insurers manage ESG risks.
- ***Execution certainty.*** The insurer must have the capacity to deliver the transaction and the flexibility to meet the scheme's requirements. These include timing and commercial terms, such as assets the insurer can take.

CASE STUDY

Non-price factors

A £100m scheme had interest from several insurers for a competitive process, but had reservations about non-price factors for each engaged insurer. An insurer that had not engaged, because the scheme was too small for the insurer's appetite at the time, ticked all the non-price boxes and was pricing competitively at that time. The scheme decided to pursue the exclusive route with that insurer, rather than run an auction process with the other insurers. The result was a buy-in on attractive terms with all the scheme's non-price requirements satisfied.

How are large transactions shaping the risk transfer market?

By Verity Hastie

Insurers in the pension scheme risk transfer market are busy. The total value of buy-in and buy-out transactions in the first half of 2023 was £21bn, the highest for the first half of a calendar year and the second-highest ever recorded for a six-month period, despite lower pension scheme liabilities resulting from higher interest rates and wider credit spreads. In the year to 30 June 2023 there were 220 transactions, totalling £37bn.

Funding levels improved for many schemes in late 2022, and we expect the pension scheme risk transfer market to exceed £50bn every year for the next few years, potentially topping £70bn in some years. But it's not just the volume of transactions that's breaking records – their size is too. In the first half of 2023, nearly 60% of the bulk annuity market by value resulted from five deals in excess of £1bn, including PIC's £6.5bn buy-in covering the liabilities of two of the RSA Group's pension schemes – the largest buy-in to date.

Two recent transactions indicate that this trend is likely to continue: a £4.8bn buy-in for the Boots Pension Scheme with L&G, and the Co-op Pension Scheme's £4bn buy-in with Rothesay. The last time the market saw many large transactions was in 2019 – this time funding positions suggest that similar transactions may continue into 2024.

A busy market full of large transactions is stretching insurers' resources, leading to capacity constraints. Large transactions in particular place demands on pricing, operations, investment and management teams, leading to some insurers unable to commit to the market as a whole.

Opportunities for schemes

Several insurers are chasing the same high-value deals, so some will inevitably lose out to competitors. In such an active market, a well resourced insurer with a transaction team in place, capital and assets to back a transaction will want to move quickly to another deal if it doesn't win. Consequently, insurer interest and pricing has become less predictable. Trustees, sponsors and advisers need to adapt to ensure schemes can achieve the best outcome.

A scheme could benefit from this volatility if the trustees have decided that buy-in or buy-out is the right route for the scheme and they're prepared to move quickly when such opportunities arise. They need to be flexible in their broking approach and transaction timetable, and have the governance structures for timely, considered decision-making.

Positive effects on the market

A large scheme often has complex or unique problems, and insurers have a strong incentive to find solutions, so this naturally brings innovation. One area of innovation is illiquid assets. Not long ago, schemes with illiquid assets had little engagement from insurers. However, deferred premiums have unlocked the door for some of these schemes. Trustees and sponsors can weigh up the costs and risks of these structures against selling their illiquid assets.

Insurers are likely to dedicate some innovative deal structuring to very large transactions, as they might feel these deals would be worth the effort. Once these solutions have been tried and tested, insurers may extend them to other schemes, so the market as a whole could benefit. More innovation would lead to a wider range of solutions, and so a move away from a standard approach – ultimately, all schemes could benefit.

Not every insurer in the bulk annuity market is focusing on large transactions. Insurers focusing on small and medium schemes are investing in making operations more efficient simply to keep up with demand. Many insurers are streamlining the quotation process, so they can more easily engage with schemes.

This drive for efficiency naturally brings some standardisation, limiting flexibility to negotiate bespoke commercial terms. A scheme could consider entering into a transaction based on pre-negotiated terms. Many risk transfer advisers offer this service – for example, Hymans Robertson offers pre-negotiated contractual terms in partnership with the law firm CMS.

Some insurers have been reluctant to quote on smaller buy-ins without exclusivity. As insurers become slicker at quoting and transacting, we expect them to become more willing to engage in competitive processes for all transaction sizes. An exclusive broking process may be the right approach for some schemes, but as insurers develop a streamlined underwriting approach, schemes should also consider a competitive process.

Then there's the potential for new entrants (see page 19). The opportunities that the busy market presents are likely to attract providers that aren't already active in pension scheme risk transfer. A new entrant may be unlikely to go for large transactions, at least at first, and so its entry would boost supply for small and medium buy-ins.

The right broking approach

These dynamics mean the outlook remains positive for schemes of all sizes that are looking to buy in or buy out in a busy market. Trustees and sponsors may be concerned about how to attract the attention of insurers that might be struggling to keep up with demand, and we're continually adapting our processes to ensure they remain fit for purpose in a changing market and give trustees and sponsors the best outcomes.

What new entrants mean for the bulk annuity market

By Iain Pearce

The risk transfer market continues to grow, and we expect new transaction records to be set in 2023 and the years to come. The opportunities brought by such strong demand are attracting the attention of insurers that are not already in the bulk annuity market.

After several years of rumours about potential new entrants, M&G re-entered the bulk annuity market in 2023 through its insurance company, Prudential Assurance Company Ltd, making it the first new entrant since 2017. Prudential Assurance Company Ltd stopped writing bulk annuities in 2016 and transferred around £12bn of its annuity portfolio to Rothesay in 2018, but continues to manage a sizeable portfolio of annuities.

M&G completed two buy-ins of similar size in 2023 totalling around £600m, the first with the M&G Group Pension Scheme and the second with the Northern Bank Pension Scheme.

The pension scheme bulk annuity market since 2006

Until 2006, most bulk annuity transactions were driven by sponsors becoming insolvent. The market developed quickly once pension scheme trustees saw insurance as a strategic de-risking opportunity. Even after consolidation, nine insurers (those in bold below) are active in the bulk annuity market, up from just two in 2005.

- **Before 2006** — **L&G**, Prudential (until 2017)
- **2006** — **PIC**, **Aviva**, AIG, Aegon, Wesleyan (until 2007), Paternoster, Lucida
- **2007** — **Rothesay**, MetLife
- **2010** — Rothesay acquires Paternoster, MetLife acquires AIG
- **2012** — Just Retirement, Partnership (merge in 2016 to form Just)
- **2013** — L&G acquires Lucida
- **2014** — Rothesay acquires MetLife
- **2015** — **Canada Life**, **Scottish Widows**
- **2016** — Rothesay and L&G acquire Aegon's annuity portfolio, Just Retirement and Partnership merge to form **Just**
- **2017** — Phoenix Group (rebranded as **Standard Life** in 2021)
- **2018** — Rothesay acquire £12bn of Prudential's annuity portfolio acquires
- **2023** — **M&G** (through Prudential Assurance Company Ltd)

Q: **How do new entrants compare with established players?**

Iain: Price has always been important for selecting an insurer, but now trustees typically assess insurers on a much wider range of capabilities than when insurers entered the market in the past. Trustees' strong views on these areas will influence whether the insurer is seen as the right counterparty for their pension schemes.

Most transactions now are whole-scheme buy-ins for schemes that don't require a contribution from the sponsor and so have a surplus on an insurance measure. Trustees in this situation have the flexibility to pay a little more to transact with a preferred set of insurers that meet non-price criteria (discussed on page 16).

It's therefore no longer enough for a new entrant to simply be willing to write long-term pensioner buy-in business at lower margins to get a foothold in the market. New entrants need to show a range of capabilities, and work hard to give as much assurance as possible to back up their business plans and promises.

Q: **How might trustees engage with new providers?**

Iain: Trustees should consider whether their circumstances and priorities mean that they should approach a new entrant for quotations. Planning will help projects run smoothly and efficiently. For example:

- If trustees would pay a premium to transact with an established insurer, they may get little value from seeking quotations from new entrants.
- If trustees need more due diligence for a new entrant without an established record to review, they may want to ask for more information as part of the quotation process, such as information about administration plans and capabilities, or responses to ESG questionnaires.

This planning will ensure trustees have the information to make decisions, and will let their pension schemes quickly lock in if they receive attractive pricing.

Q: **How might new entrants approach the first series of transactions?**

Iain: A new entrant is likely to have the capacity to enter into only a few transactions at first. It will therefore aim to dedicate its limited resources to the transactions with the best chance of success. It may also have a preference for simplicity, and so may be less keen on schemes with complex benefit structures.

Trustees that spend the time considering whether and how to talk to new entrants are likely to get the most engagement. They may also benefit from some motivated providers who are looking to get a foothold in the market. This 'early mover' advantage could result in preferable contractual or commercial positions.

Planning for the uncertain journey to buy-out

By Richard Wellard

Trustees and sponsors of a DB scheme on the road to buy-out need to be prepared for the many uncertain stages of the journey. Planning early and making steady progress is one of the best ways to manage this intrinsic uncertainty. The four ingredients of a really great plan are:

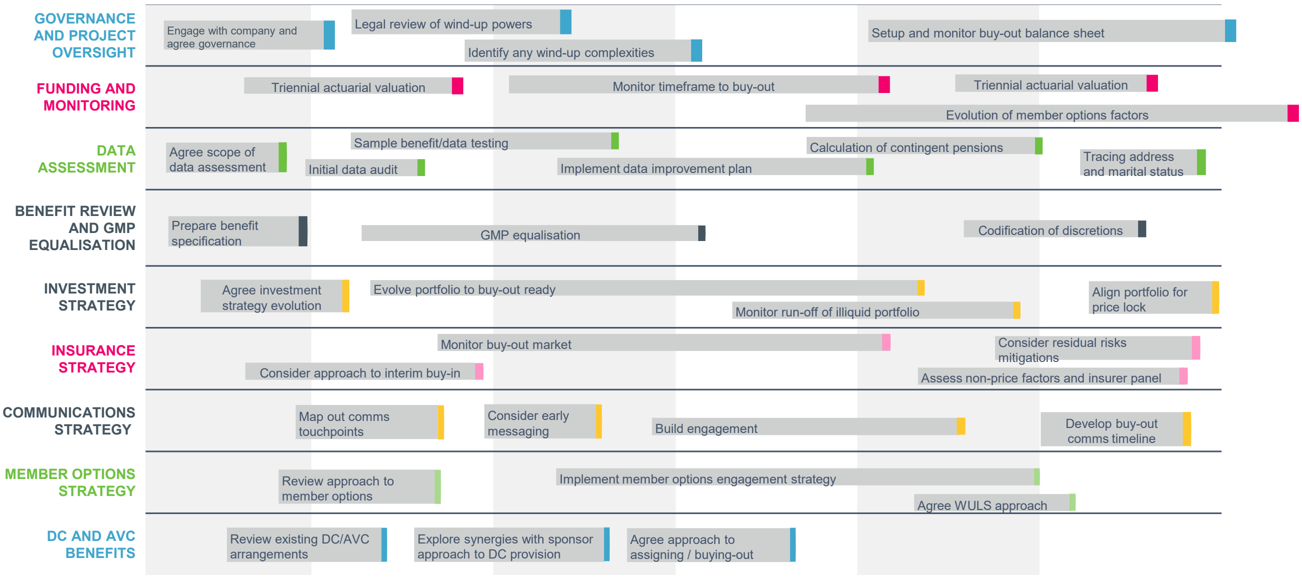
1. **Sensible workstreams, clearly defined and the interdependencies between them recognised.**
2. **Monitoring of the timeframe to buy-out affordability.**
3. **Governance that supports proactive management of the plan to deal with surprises along the way.**
4. **A "helicopter view" that helps the trustees and employer understand the whole journey**

Why the uncertainty?

On the road to buy-out, trustees must review the scheme's data, benefits and administration practices more deeply than ever. Such a thorough review often turns up issues or actions that the trustees didn't know about and can't anticipate. These unforeseen issues make it hard to plan with certainty for this work and allocate the resource to complete it. Trustees don't know when they should start, and must co-ordinate, prioritise and budget for all these activities even with the unknowns on the road ahead.

This difficulty is compounded by an uncertain timeframe to when buy-out would be affordable. Trustees often don't know how much time they have until the scheme has enough funds to insure members' benefits and wind up the scheme's affairs. The uncertainty is especially likely if the scheme's funding position is changing as a result of volatile financial conditions. Market conditions also affect insurers' pricing, which can be changeable, opaque and subject to material movement over very short timescales.

Figure 1. Example journey plan to buy-out



Mapping out a route

How can trustees map out a journey to buy-out in such an uncertain environment? Early preparation is crucial. Trustees and sponsors should be aware of the work that could be involved and make a robust plan with an appropriate framework – one that compartmentalises the workstreams and potential challenges.

The trustees must also ensure that they're monitoring the right target. It's valuable to pick up changes in insurer pricing, and consider the right level of assets a scheme needs to wind up its affairs after insurance is in place. The earlier the trustees start thinking about their investment strategy in the context of ultimately transferring funds to an insurer, the smoother the journey is likely to be.

Once the journey is mapped out, the trustees need to be prepared for roadblocks to come up at unexpected points. They need to manage the project proactively, making detours from the plan if they need to, and measure progress on the road to buy-out, but they should also consider the main risks and the effect they'd have. For many schemes, these risks would be movements in insurer pricing, quality of scheme data and the deep-dive legal review identifying issues that could affect the benefits paid to members.

Effective stakeholder management is also important. The sponsor needs to see the road ahead so it can approve budgets in time, and advisers need to work effectively with the trustees and with each other. Everyone must recognise that the plan could change, and the trustees must keep stakeholders up to date.

Reaching your destination

Having the right plan and project management in place helps trustees to complete buy-out preparation work efficiently, saving time and costs.

Once the trustees have insurance in place with a buy-in, they have a lot of work to do to tell members about changes to the scheme, assign them their individual insurance policies and wind up the scheme's affairs. If trustees are properly identifying and managing risks ahead of the buy-in, they'll be confident that they have enough money in the scheme to deal with the final stages of buy-out, after most of the assets of the scheme have been paid to the insurer to secure members' benefits.

External influences

Comparing insurers' net zero plans

By Paul Hewitson

In the ongoing fight to tackle climate change, all bulk annuity insurers have set targets to reduce the carbon emissions associated with their investment portfolios. They're targeting net zero emissions over the longer term – typically by 2050.

As pension schemes get better funded, sometimes with a surplus, the trustees give greater weight to non-price factors, including ESG considerations.

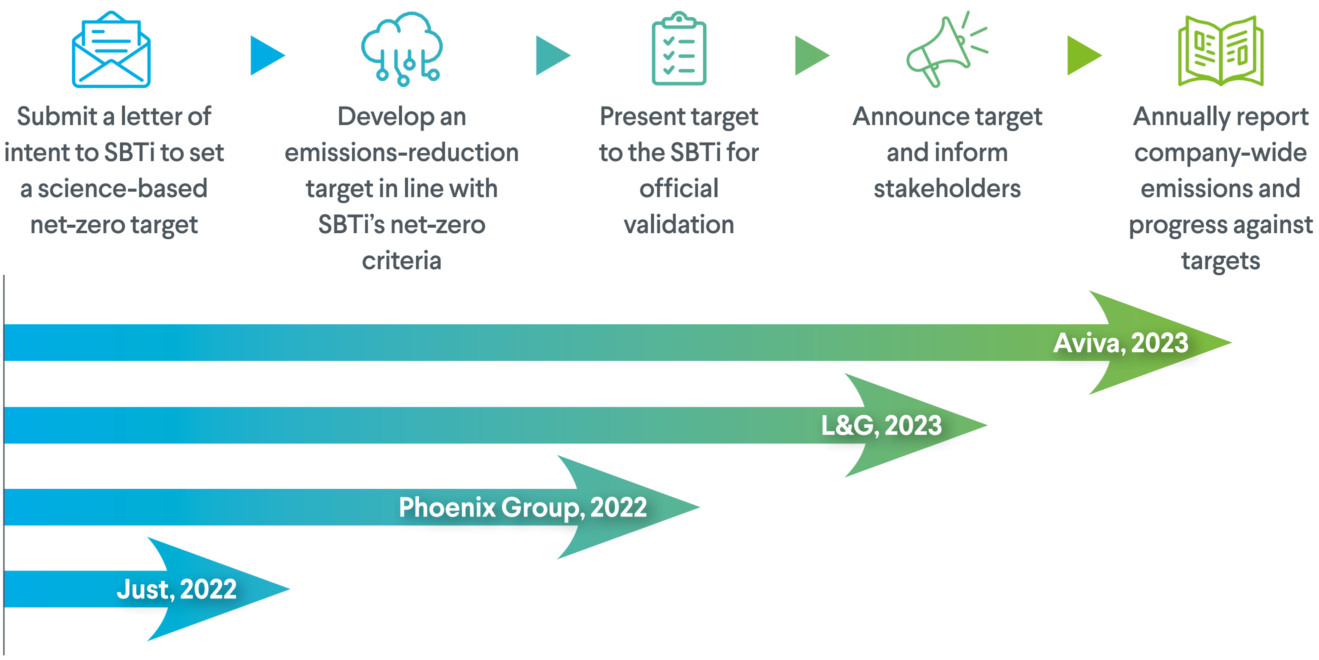
Comparing insurers' ESG approaches is not straightforward because insurers don't follow a consistent reporting approach. They vary in how they set emissions targets, and in the metrics they use to measure and report on their progress. How can pension schemes be sure that insurers' net zero plans are comparable or will ultimately meet their desired aims, for the good of us all?

The Science Based Targets initiative (SBTi) offers a glimmer of light in the otherwise misty environment of ESG reporting. SBTi is a partnership between CDP (a non-profit organisation, previously known as the Carbon Disclosure Project), the United Nations Global Compact, World Resources Institute (WRI) and the World Wide Fund for Nature (WWF). The SBTi focuses on promoting, setting and validating science-based emission-reduction targets for companies. The SBTi is helping to define and promote best practice in reducing emissions and net-zero targets in line with climate science. It's encouraging to see that most of the bulk annuity insurers are engaged with the SBTi or are considering aligning with its approach.

The SBTi's work will be important to trustees, because it's likely to form a widely accepted benchmark against which firms' ESG approaches can be measured. Figure 1 summarises the SBTi's approach to setting science-based targets, with details of insurers' progress to setting their targets and seeking independent validation.

Figure 1 shows the four bulk annuity insurers that have disclosed they're using the Science Based Targets initiative, along with their latest reported progress.

Science Based Targets initiative - Figure 1 below



However, insurers looking to set their emission reduction targets have other options, including frameworks from the Institutional Investors Group on Climate Change (IIGCC), the UN-Convened Net-Zero Asset Owner Alliance (NZAOA) and the Net Zero Asset Managers initiative (NZAM). Figure 2 shows the approaches taken by the remaining five bulk annuity insurers.

Insurer use of other science-based target frameworks - Figure 2 below

Ultimately, what matters the most are the steps each insurer takes to implement its net zero transition plan, and we will only truly understand the progress towards their targets over the coming years through the emissions metrics that the insurers publicly disclose. We'll keep a close eye on this area, as we continue to support pension schemes with their ongoing scrutiny of insurers.

‘Solvency UK’ plans move ahead
By Michael Abramson

Solvency UK, the regime for UK insurers to replace the European Solvency II regime, has taken meaningful shape in 2023, and will introduce changes in three main areas, one of which has already been implemented and the other two are expected over the course of 2024 as follows:

31 December 2023	30 June 2024 (expected)	31 December 2024 (expected)
Reduction in risk margin	Matching adjustment changes	Streamlined reporting

1) A smaller risk margin for annuity businesses

What?	Solvency UK is expected to reduce the risk margin by around 65% for annuity business. This component of insurance capital was introduced with Solvency II and is prominent for annuity business.
When?	This change was incorporated into statute at the end of 2023, allowing insurers to take account of it in 31 December 2023 solvency calculations.
What does it mean?	The Treasury estimates that this change will release around £9bn of capital from insurer balance sheets. The release in regulatory capital will serve to increase several insurers’ solvency coverage. But it doesn’t make them any more secure, as they still have the same level of assets and liabilities after the change. This surplus capital may be paid out to shareholders or used for reinvestment. Reinvested capital will increase insurers’ capacity to write new business. Although this change reduces the minimum capital held, we expect the impact on capital levels and pricing for new bulk annuity business not to be significant – largely because insurers commonly use reinsurance, which serves to reduce the risk margin in any case.

2) Changes to the matching adjustment

What?	Solvency UK proposes changes to a few aspects of the 'matching adjustment', which allows insurers to discount their liabilities using a risk-adjusted expected yield on their assets so long as assets match the insurer's liabilities. **a)** Insurers would be able to match a limited portion of their liabilities with 'highly predictable' asset cash flows instead of the current requirement for 'fixed and certain' cash flows. This allowance would apply to up to 10% of the benefit an insurer derives from its matching adjustment portfolio. **b)** Insurers apply a 'fundamental spread' as a yield adjustment to asset return to reflect the cost of expected defaults and asset downgrades. The Prudential Regulation Authority (PRA) proposes that a designated senior manager at the insurer would be required to regularly attest that in their view the yield adjustment is materially more certain than best estimate, or, if it is not, to increase the fundamental spread accordingly. They would do so annually or whenever the insurer's risk profile has changed materially. The PRA will also have the power to apply a capital add-on for particular asset classes if it deemed the adjustment was not appropriate. **c)** The PRA proposes to introduce notches to the credit quality steps for assets (such as A+ and A- in addition to A) and to give more matching adjustment benefit to sub-investment grade assets (currently this is capped at the level of benefit of investment grade assets).
When?	The PRA consulted on these changes in 2023 and expects to publish updated rules and policy in the second quarter of 2024, with an effective date of 30 June 2024.
What does it mean?	**a)** The 10% allowance for 'highly predictable' assets will apply not just to new assets, but to insurers' existing portfolios, so its impact may be greater than it seems at first glance. In some instances, these proposals may help insurers take on pension schemes' illiquid assets, although we expect that many of these assets will still not meet the 'highly predictable' requirement. **b)** The attestation process regarding the 'fundamental spread' in effect raises the bar for policyholder security, with corresponding upward pressure on annuity pricing. **c)** The extra credit notches would better reflect the underlying risk profile of the portfolio. The expansion to sub-investment grade shouldn't lead to an overall watering down of credit quality in investment portfolios, as a sliding scale of increased capital would continue to apply and the existing 'prudent person principle' will is likely to mean most of a portfolio will remain investment-grade.

3) Less onerous reporting requirements

What?	Solvency UK proposes streamlining approvals for various changes to insurer capital models. It also proposes streamlining or removing some reporting requirements and introducing a 'mobilisation' regime to help insurers enter the market with more proportionate regulatory requirements.
When?	The PRA consulted on these changes in 2023, and expects to implement the final policy in early 2024. Updated reporting is due to be in effect for the 2024 year-end.
What does it mean?	While these changes may make the lives of many people at insurers much easier, for others they are less exciting and unlikely to have a noticeable impact.

PRA looks at funded reinsurance

What is funded reinsurance?

With funded reinsurance, an insurer takes a portion of the buy-in premium received from a pension scheme and passes it on to a reinsurer, which then has to make monthly benefit payments to the insurer. Insurers use funded reinsurance for a variety of reasons, including scaling up capital or asset deployment, capital optimisation, and helping with pricing. Funded reinsurance has more inherent risk than longevity reinsurance, as the asset risk is passed to the reinsurer, so if the reinsurer fails, there is the potential for loss – albeit this is limited by the requirement to hold significant collateral.

In June the PRA published a letter to insurers' chief risk officers about their use of funded reinsurance, and followed this up in November with a consultation. The letter shared the PRA's insights from its review of funded reinsurance. The PRA concluded that while insurers' risk frameworks and models relating to funded reinsurance are improving, insurer practices still have material shortcomings, in particular regarding structural risks in collateral portfolios and assumptions about the impact of reinsurer failure. Insurers need to consider whether they need to take any remedial action as a result of the letter.

November's consultation included a draft supervisory statement regarding funded reinsurance, with final proposals due to come into force in Q2 2024. The consultation covers three areas.

- **Ongoing risk management.** Detailed requirements for counterparty exposure limits (so insurers are not overly exposed to the failure of any one reinsurer) and the nature of collateral, in particular with regard to matching adjustment eligibility.
- **Capital models.** Insurers will need to consider specific requirements for capital models for funded reinsurance. These requirements relate to probability of reinsurer default, any potential loss on default, and how effective the recaptured assets would be in a failure scenario.
- **New contracts and structuring.** More clearly defined requirements and minimum practices for entering into and structuring new funded reinsurance arrangements, including a prescribed quantitative assessment framework.

It seems the PRA is concerned about the scale of demand for bulk annuities and competitive pressures creating an environment where insurers build up systematic risk exposures through the use of funded reinsurance to counterparties whose risks may correlate with other market risks. We expect that not only will the PRA measures tighten the risks associated with funded reinsurance, but that it could dampen its use by insurers.

Longevity risk

Longevity trends – uncertainty creates opportunity

By Jill Jamieson

Introduction

When we advise pension schemes on risk transfer, we look to Club Vita for the latest longevity tools and insights. Club Vita provides longevity analytics across the pensions industry, including to insurers and reinsurers who sit on the 'other side' of risk transfer transactions. These insights ensure that pension schemes can approach the market with confidence.

In this article, Club Vita's Head of Pensions UK, Jill Jamieson, outlines three contrasting approaches to modelling post-pandemic mortality trends.

Post-Covid longevity landscape

It will take a few more years of data to come through before we can confidently portray the post-Covid longevity landscape. Most commentators think it's unlikely that UK life expectancies in the coming years will reach our pre-Covid expectations, at least in the short to medium term. Shorter life expectancies are partly due to the long-lasting impact of Covid on individual health (eg long Covid) and on the healthcare system. These factors are joined by unexpected headwinds associated with high inflation, low economic growth and the resulting pressures on living standards.

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How should we model post-Covid longevity trends?

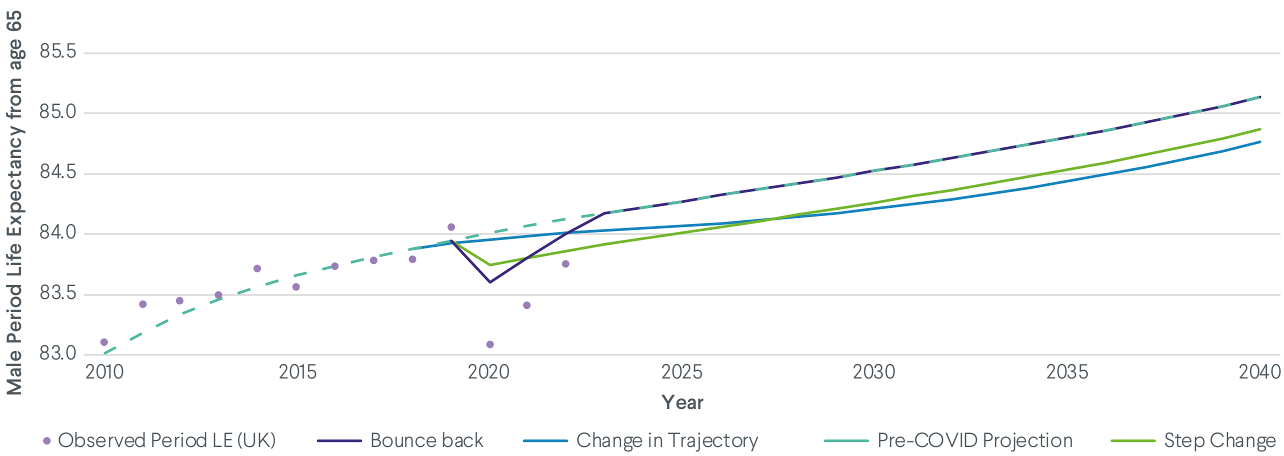
Most people agree mortality rates in the coming years will be higher than expected pre-Covid. We need to make allowance for this expectation when modelling longevity trends. However, without several years of post-pandemic data to guide us, there's more than one way to do this.

At Club Vita, three broad schools of thought are emerging on how to model the post-Covid era: '**change in trajectory**', '**step change**' and '**bounce back**'.

- The **change in trajectory** approach allows for life expectancy over the rest of this decade and beyond to rise more slowly than we expected before the pandemic. This is the approach the CMI took in the core parameterisation of its CMI_2022 Mortality Projections Model.
- In contrast, the **step change** approach retains the pre-pandemic trajectory, but assumes that life expectancies in the immediate aftermath of Covid will be considerably lower than we expected before the pandemic.
- The **bounce back** approach allows for a short-term increase in expected mortality rates in line with the step change approach, but with a reversion over time to pre-pandemic expectations.

The three approaches are illustrated in Figure 1.

Figure 1. How should we model post-Covid longevity trends?



Source: Club Vita calculations based on the CMI's illustrative software published alongside Working Paper 168. Observed period life expectancies estimated using England & Wales data for men. The blue line shows the proposed core projection methodology for CMI_2022 with long term rate of 1.5% pa. The purple and green lines show projections with W2022 set to zero. The step change in green line modelled via a 103.5% scaling factor, equating broadly to a three-month loss in life expectancy from age 65.

Whichever approach you adopt, you should consider base tables and improvement tables holistically. Take care to avoid double counting the impact of Covid by allowing for it in both in your current estimate of life expectancy and in your projection. To help achieve clarity of thought and transparency in the allowance made, it may be appropriate to allow for the impact of Covid solely in either your base table or your improvement projection. For example:

Approach	Captured by an update to pre-Covid base tables?	Captured by an update to pre-Covid projection?
Change in trajectory	N	Y
Step change	Y	N
Bounce back	Y*	N

* Modelled via a short-term uplift to base tables, running off over time. For less mature schemes with very few deaths during the bounce-back period, this uplift may be considered immaterial and disregarded.

What does this mean for trend risk pricing?

Longevity hedging, whether through longevity swaps or buy-ins, may become more attractive to pension schemes when longevity trends (ie longevity risks) are less certain, as they are after Covid. The lack of consensus on modelling post-Covid longevity trends also presents an opportunity to pension schemes. Increased uncertainty has increased variation in longevity trend pricing among (re)insurers. The spread between the most and least competitive providers is therefore larger, which can lead to the most competitive providers offering more attractive pricing than the average.

As we enter the post-pandemic era, the questions are:

- What can post-pandemic mortality data tell us about the future?
- What does that data represent? Should we interpret it as a slowdown in life expectancy improvements, a step change in baseline mortality, a combination, or just a short-term blip?
- What's the best way to capture the impact of recent data in longevity projections to ensure clarity of thought and avoid double counting?
- Could the lack of consensus create an opportunity for pension schemes?

Learn more about Club Vita

Club Vita is an independent longevity data analytics company, which facilitates the pooling and statistical analysis of demographic data from DB pension schemes to reveal insights that would not be evident to the schemes acting alone. Club Vita was founded in the UK in 2008, and established operations in Canada in 2015 and the USA in 2019. Today, Club Vita analytics are seen as a global longevity currency, used by pension schemes, advisers, asset managers and the insurance market to develop strategies that actively monitor and manage longevity risk.

For further information, please see https://www.clubvita.net/uk

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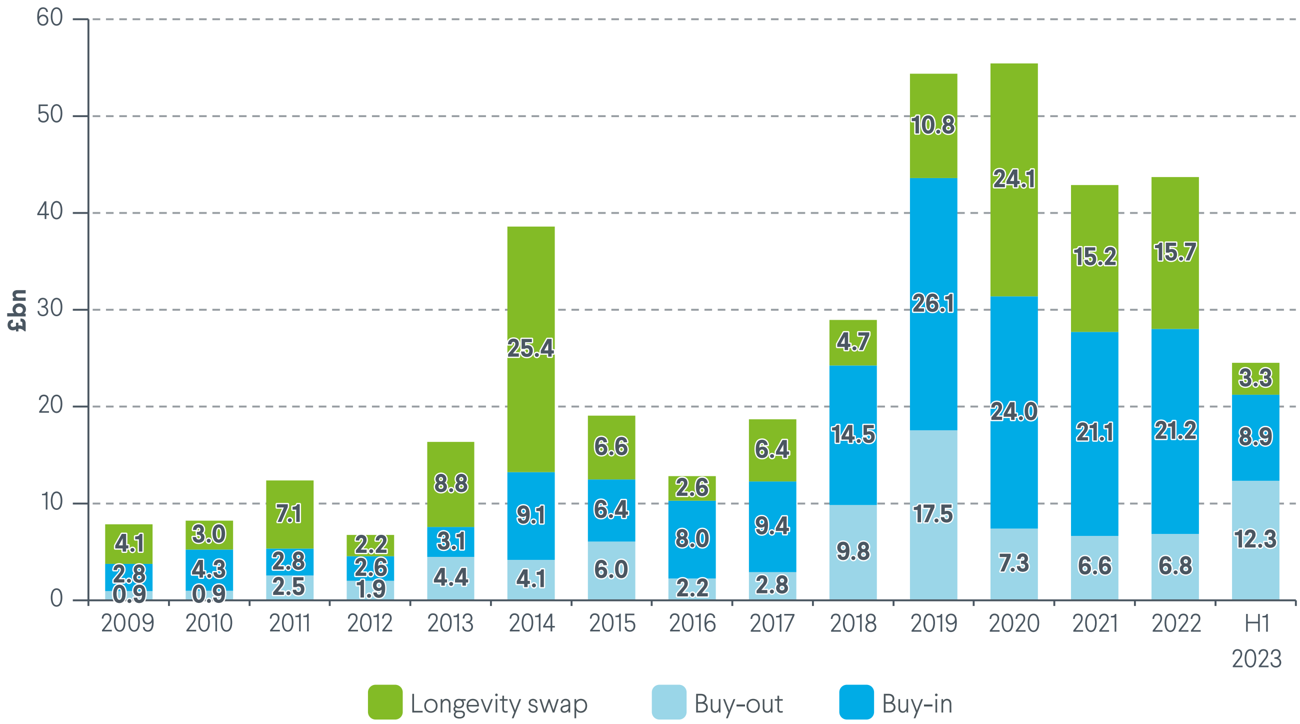
Appendix

Volume of risk transfer deals since 2009



Note. In this chart, buy-outs include transactions that insurers have said are full-scheme buy-ins.

Largest buy-ins and buy-outs in the year to 31 December 2023

The last year saw at least 29 deals in excess of £200m, of which at least 11 were worth more than £500m. This table includes deals from the second half of 2023 that were publicly disclosed. The largest transactions were RSA Group's two buy-ins with PIC totalling £6.3bn and Boots' £4.8bn transaction with L&G.

	Pension scheme	Provider	Value	Deal type	Date
Buy-ins and buy-outs					
1	RSA Group - Sal Pension Scheme & Royal Insurance Group Pension Scheme	PIC	£6,255m	Buy-in	Q1 2023
2	Boots Pension Scheme	L&G	£4,800m	Buy-in	H2 2023
3	Co-operative Pension Scheme	Rothesay	£4,000m	Buy-in	H2 2023
4	Thales UK Pension Scheme	Rothesay	£2,700m	Buy-in	H2 2023
5	British Steel Pension Scheme	L&G	£2,604m	Buy-in	Q1 2023
6	United Utilities	L&G	£1,800m	Buy-in	H2 2023
7	Safeway Scheme	Rothesay	£1,400m	Buy-in	Q2 2023
8	Mitchells & Butlers	Standard Life	£1,143m	Buy-in	Q2 2023
9	Chubb Pension Plan and Chubb Security Pension Plan	Standard Life	£1,038m	Buy-in	Q2 2023
10	Thomas Cook Pension Plan	Aviva	£870m	Buy-in	Q2 2023
11	Arcadia Group	Aviva	£860m	Buy-in	Q1 2023
12	GKN Pension Scheme - owner Melrose Industries	Just	£513m	Buy-in	Q1 2023
13	Deutsche Bank (UK) Pension Scheme	L&G	£500m	Buy-in	H2 2023
14	Undisclosed	L&G	£467m	Buy-in	H1 2023
15	P&O	Rothesay	£440m	Buy-in	H2 2023
16	Deutsche Bank (UK) Pension Scheme	Aviva	£400m	Buy-in	H1 2023
17	Harrods Group Pension Plan	Scottish Widows	£380m	Buy-in	Q2 2023
18	Undisclosed	Aviva	£350m	Buy-in	H2 2023
19	Cable and Wireless fund	L&G	£340m	Buy-in	H2 2023
20	Ford UK senior staff scheme	Scottish Widows	£340m	Buy-in	H2 2023
21	Undisclosed	Just	£336m	Buy-out	Q1 2023
22	Undisclosed	Scottish Widows	£335m	Buy-in	H2 2023
23	London Stock Exchange (LSE) Group Pension Scheme	Standard Life	£335m	Buy-in	Q2 2023
24	M&G Group Pension Scheme (M&GGPS)	M&G	£331m	Buy-in	H2 2023
25	Confidential	Standard Life	£320m	Buy-in	Q2 2023
26	ITB Pension Funds	Just	£290m	Buy-in	H2 2023
27	Northern Bank Pension Scheme	M&G	£286m	Buy-in	H2 2023
28	Bayer Group Pension Plan	Canada Life	£280m	Buy-in	H2 2023

Longevity swaps – deals since 2009

Since 30 June 2009, 62 deals have been completed, covering liabilities worth around £149.4bn. In the second half of 2023, £7bn of disclosed longevity swaps were completed.

Organisation	Date	No. of schemes	Provider	Approximate value
Babcock	Q3 2009	3	Credit Suisse	£1.2bn
RSA Insurance	Q3 2009	2	Rothesay Life	£1.9bn
Berkshire	Q4 2009	1	Swiss Re	£1.0bn
BMW	Q1 2010	1	Abbey Life	£3.0bn
British Airways	Q3 2010	1	Rothesay Life	£1.3bn
Pall	Q1 2011	1	JP Morgan	£0.1 bn
ITV	Q3 2011	1	Credit Suisse	£1.7bn
Rolls Royce*	Q4 2011	1	Deutsche Bank	£3.0bn
Pilkington	Q4 2011	1	Legal & General	£1.0bn
British Airways	Q4 2011	1	Rothesay Life	£1.3bn
Akzo Nobel	Q2 2012	1	Swiss Re	£1.4bn
LV=*	Q4 2012	1	Swiss Re	£0.8bn
BAE Systems	Q1 2013	1	Legal & General	£3.2bn
Bentley	Q2 2013	1	Abbey Life	£0.4bn
Carillion	Q4 2013	5	Deutsche Bank	£1.0bn
AstraZeneca	Q4 2013	1	Deutsche Bank	£2.5bn
BAE Systems	Q4 2013	2	Legal & General	£1.7bn
Aviva	Q1 2014	1	Own insurer conduit- Munich Re, Scor Se and	£5.0bn
BT	Q2 2014	1	Own insurer conduit - PICA	£16.0bn
PGL*	Q3 2014	1	Own insurer conduit - Phoenix Life	£0.9bn
MNOPF *	Q4 2014	1	Own insurer conduit - Pac Life Re	£1.5bn
ScottishPower	Q4 2014	1	Abbey Life	£2.0bn
AXA UK	Q3 2015	1	Own insurer conduit - RGA	£2.8bn
Heineken	Q3 2015	1	Aviva	£2.4bn
RAC (2003) Pension Scheme	Q4 2015	1	Own insurer conduit - Scor Se	£0.6bn
Unnamed	Q4 2015	1	Zurich	£0.1bn
Serco*	Q4 2015	1	Undisclosed	£0.7bn
Pirelli Tyres Limited	Q3 2016	2	Zurich	£0.6bn
Manweb Group	Q3 2016	1	Abbey Life	£1.0bn
Unnamed	Q4 2016	1	Zurich	£0.1bn
Unnamed	Q4 2016	1	Legal & General	£0.9bn
Unnamed	Q1 2017	1	Zurich	£0.3bn

Table continues on the next page.

Organisation	Date	No. of schemes	Provider	Approximate value
Skanska	Q2 2017	1	Zurich	£0.3bn
SSE*	Q2 2017	1	Legal & General	£0.8bn
Marsh & McLennan	Q3 2017	1	Own insurer conduit - Canada Life Re and PICA	£3.4bn
British Airways*	Q3 2017	1	Own insurer conduit - Canada Life Re and	£1.6bn
National Grid	Q2 2018	1	Zurich	£2.0bn
Lafarge	Q3 2018	2	Own insurer conduit - Munich Re	£2.4bn
Unnamed	Q3 2018	1	Legal & General	£0.3bn
HSBC	Q3 2019	1	Own insurer conduit - PICA	£7.0bn
HSBC	Q3 2019	1	Own insurer conduit - Swiss Re	£3.5bn
Unnamed	Q4 2019	1	Zurich	£0.8bn
AXA UK	2019	1	Undisclosed	£0.6bn
Lloyds Banking Group	Q1 2020	3	Scottish Widows - Pacific Life Re	£10.0bn
Willis Towers Watson	Q1 2020	1	Own insurer conduit - Munich Re	£1.0bn
UBS	Q2 2020	1	Zurich - Canada Life Re	£1.4bn
Prudential	Q4 2020	1	Own insurer conduit - Pacific Life Re	£3.7bn
Barclays	Q4 2020	1	Own insurer conduit - RGA	£5.0bn
BBC	Q4 2020	1	Zurich - Canada Life Re	£3.0bn
AXA UK	Q1 2021	1	Hannover Re	£3.0bn
Fujitsu	Q2 2021	1	Own insurer conduit - Swiss Re	£3.7bn
Undisclosed	Q2 2021	1	Zurich - PICA	£6.0bn
Undisclosed	Q4 2021	1	Zurich - MetLife	£2.6bn
Lloyds Banking Group	Q1 2022	1	Scottish Widows - SCOR	£5.5bn
Undisclosed	Q2 2022	1	Zurich - Partner Re	£1.0bn
USB (UK)	Q3 2022	1	Zurich - Canada Life Re	£0.5bn
Balfour Beatty	Q4 2022	1	Zurich - SCOR	£1.7bn
Barclays	Q4 2022	1	PICA	£7.0bn
Nationwide Pension Fund	Q2 2023	1	Zurich - PFI	£1.7bn
Yorkshire and Clydesdale Bank (YCB)	Q2 2023	1	Zurich - Pacific Life Re	£1.6bn
BT Pension Scheme	H2 2023	1	Reinsurance Group of America	£5bn
MMC UK Pension Fund	H2 2023	1	Munich Re	£2bn
Total to date		**62 (deals)**		**£149.4bn**

*Since the original swap transaction date these deals have been converted to buy-ins.

Insurer summary insights

Aviva

2009 to end of H1 2023

Risk Transfer deals tracker

Transactions completed	Value of transactions	Average transaction size
668	£32,809m	£49m

Twelve months ending 30 June 2023

Risk Transfer deals tracker

Market share	Number of transactions	Average transaction size
13%	51	£98m

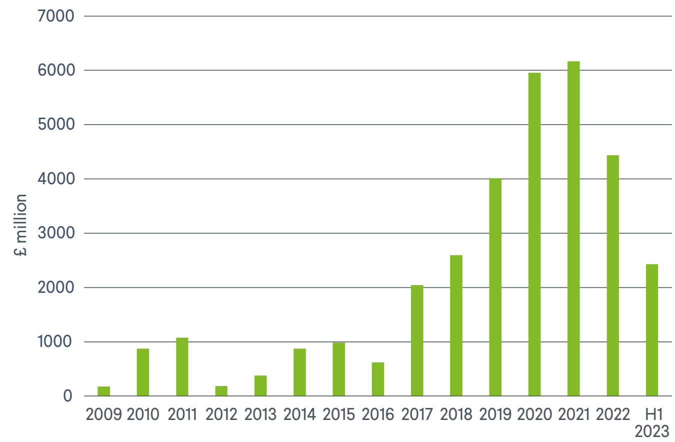
Team size

220
(including internal support and administration teams)

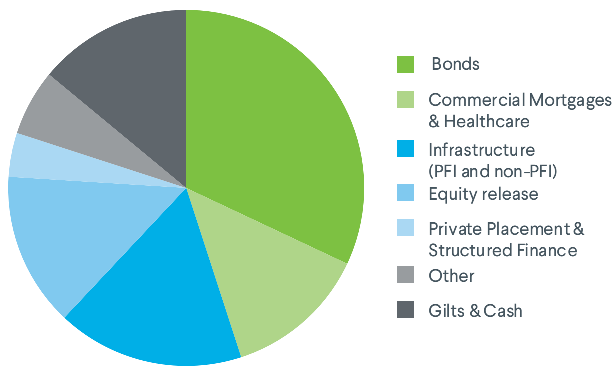
Administrator

In-house

Volume of DB annuity transactions



Annuity asset strategy



Source: Provided by Aviva, as at 31 December 2022

Financial strength – Aviva Life & Pensions UK Ltd

AKG	Fitch Rating
B+ (June 2022)	**AA-** (March 2023)

Noteworthy recent transactions

Arcadia Group Pension Scheme and Arcadia Group Senior Executive Pension Scheme: £860m PPF+ buy-ins covering 8,800 members (February 2023)

Thomas Cook Pension Plan: £870m full scheme buy-in covering more than 12,500 members (May 2023)

Recent developments

Aviva has implemented a new administration platform in 2022 and moved schemes over throughout 2023.

Canada Life

2009 to end of H1 2023

Risk Transfer deals tracker

Transactions completed	Value of transactions	Average transaction size
38	£4,404m	£116m

Twelve months ending 30 June 2023

Risk Transfer deals tracker

Market share	Number of transactions	Average transaction size
<1%	1	£37m

Team size

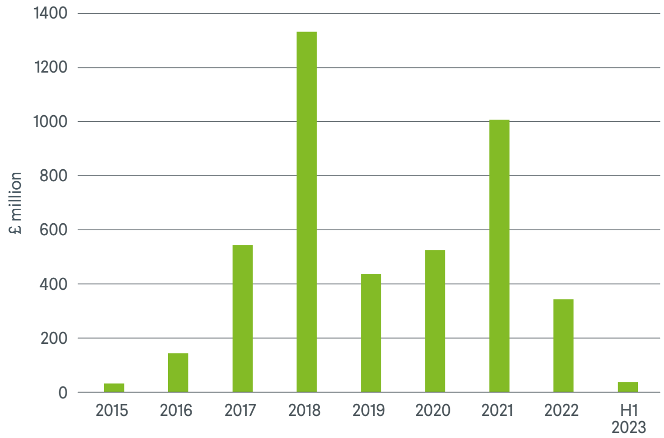
50

(split across pricing, administration and implementation)

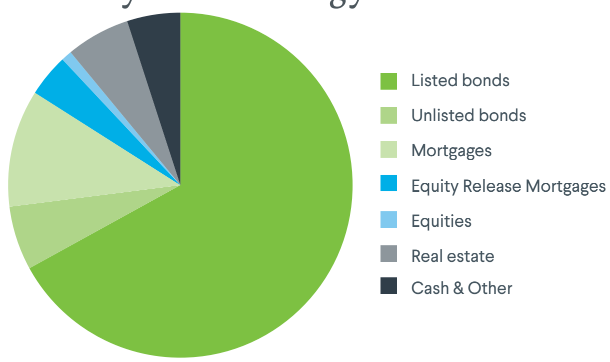
Administrator

Aptia

Volume of DB annuity transactions



Annuity asset strategy



Source: Provided by Canada Life, as at 30 June 2023

Financial strength – Canada Life Ltd

AKG	Fitch Rating
B+ (August 2023)	**AA** (November 2022)

Noteworthy recent transactions

Unnamed scheme: £58m buy-in covering 570 members, Canada Life's first buy-in to include deferred members (July 2023)

Bayer Group Pension Plan: £280m pensioner buy-in covering more than 1,300 members (October 2023)

Recent developments

Tim Coulson joined Canada Life in April 2023 as Managing Director of Bulk Purchase Annuities. Tim previously built and led the DB de-risking business at Just.

Just

2009 to end of H1 2023

Risk Transfer deals tracker

Transactions completed	Value of transactions	Average transaction size
327	14.2bn	43m

Twelve months ending 30 June 2023

Risk Transfer deals tracker

Market share	Number of transactions	Average transaction size
10%	77	£48m

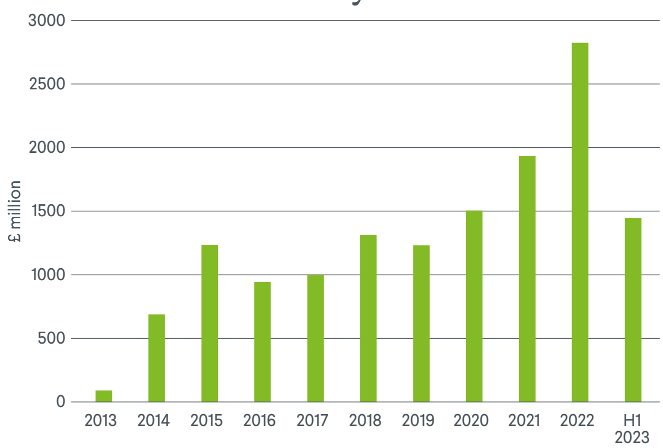
Team size

115

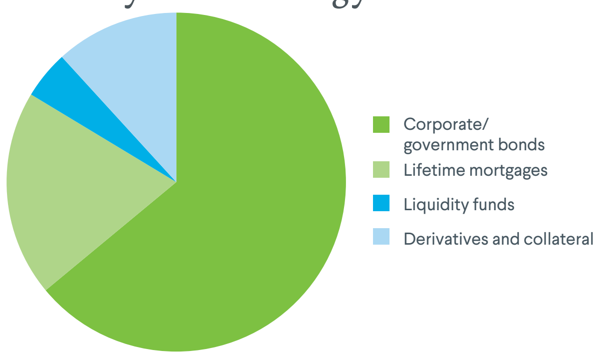
Administrator

Aptia

Volume of DB annuity transactions



Annuity asset strategy



Source: Provided by Just, as at 30 June 2023

Financial strength – Just Retirement Limited

AKG	Fitch Rating
B+ (August 2023)	**A+** (November 2023)

Noteworthy recent transactions

GKN Group Pension Scheme: £513m full buy-in covering over 4,000 members (March 2023)

Legal & General (L&G)

2009 to end of H1 2023

Risk Transfer deals tracker

Transactions completed	Value of transactions	Average transaction size
825	£63,326m	£77m

Twelve months ending 30 June 2023

Risk Transfer deals tracker

Market share	Number of transactions	Average transaction size
23%	43 (excluding 3 APP transactions)	£195m

Team size

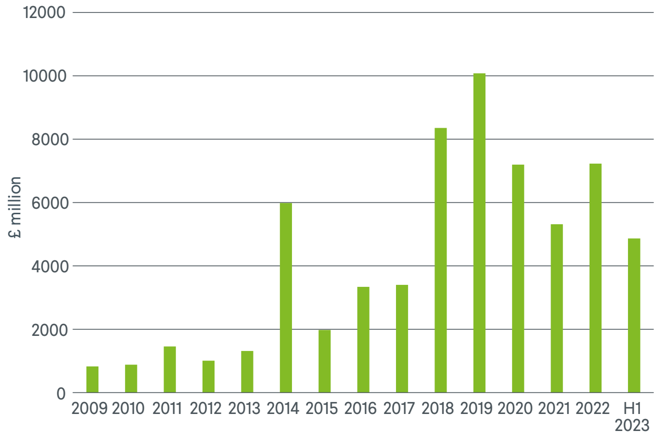
268

(including 95 in pricing, 34 in transitions and onboarding and 139 in administration)

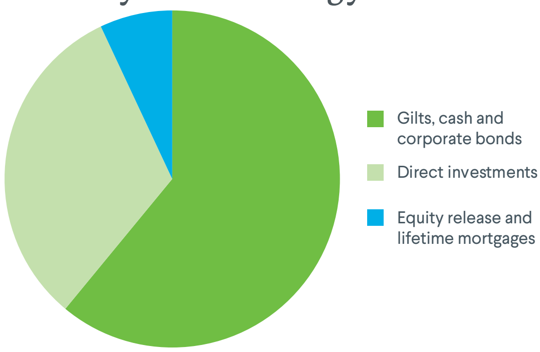
Administrator

In-house

Volume of DB annuity transactions



Annuity asset strategy



Source: Provided by L&G, as at 30 June 2023

Financial strength – L&G Assurance Society Ltd

AKG	Fitch Rating
B+ (April 2023)	AA- (September 2023)

Noteworthy recent transactions

British Steel Pension Scheme: £2.6bn buy-in, the fourth and final buy-in policy for the scheme with L&G, covering 67,000 members across all buy-ins (May 2023)

United Utilities Pension Scheme and the United Utilities PLC Group of the Electricity Supply Pension Scheme: £1.8bn partial buy-ins (July 2023)

Boots Pension Scheme: £4.8bn full buy-in covering 53,000 members (November 2023)

M&G

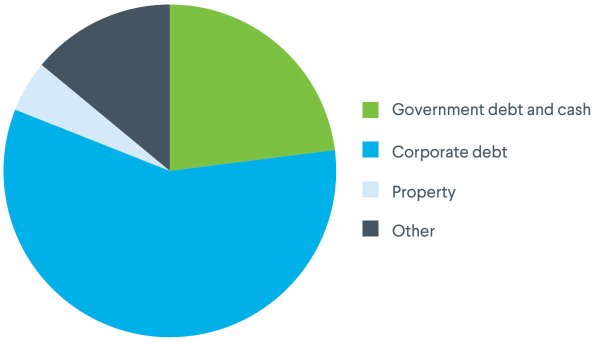
Team size

20
(plus a wider team used within M&G, not entirely focused on bulk annuities)

Administrator

WTW

Annuity asset strategy



Source: Provided by M&G, as at 30 June 2023

Financial strength – Prudential Assurance Company Ltd

AKG	Fitch Rating
A (September 2023)	**AA-** (November 2023)

Noteworthy recent transactions

M&G Group Pension Scheme: £331m full buy-in covering over 1,400 pensioner and deferred members (September 2023)

Northern Bank Pension Scheme: £286m buy-in covering pensioner and deferred members (September 2023)

Recent developments

M&G re-entered the bulk annuity market during 2023 through its insurance company , Prudential Assurance Company (PAC) Ltd, with the announcement of two transactions, totalling c. £620m. PAC had previously stopped writing bulk annuities in 2016.

Pension Insurance Corporation (PIC)

2009 to end of H1 2023

Risk Transfer deals tracker

Transactions completed	Value of transactions	Average transaction size
252	£55,663m	£221m

Twelve months ending 30 June 2023

Risk Transfer deals tracker

Market share	Number of transactions	Average transaction size
22%	17	£485m

Team size

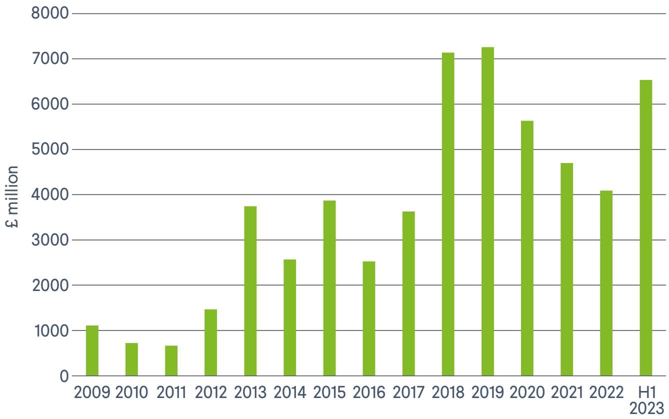
245

(including 108 in pricing and 137 in administration)

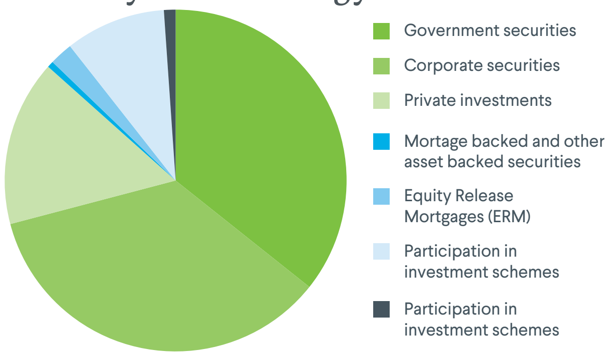
Administrator

Capita

Volume of DB annuity transactions



Annuity asset strategy



Source: Provided by PIC in their Half Year 2023 results, as at 30 June 2023

Financial strength – PIC plc

AKG	Fitch Rating
B (August 2023)	**A+** (September 2023)

Noteworthy recent transactions

Sal Pension Scheme and the Royal Insurance Group Pension Scheme: buy-ins totalling £6.3bn, covering 40,000 members across RSA's two UK schemes (February 2023)

Recent developments

Mitul Magudia has been promoted to Co-Chief Origination Officer, from Head of Business Development. He will fully take over from Jay Shah, current Chief Origination Officer, when Jay formally steps down from the role at end of March 2024.

Insurer summary insights

Rothesay

2009 to end of H1 2023

Risk Transfer deals tracker

Transactions completed	Value of transactions	Average transaction size
84	£42,683m	£508m

Twelve months ending 30 June 2023

Risk Transfer deals tracker

Market share	Number of transactions	Average transaction size
11%	10	£422m

Team size

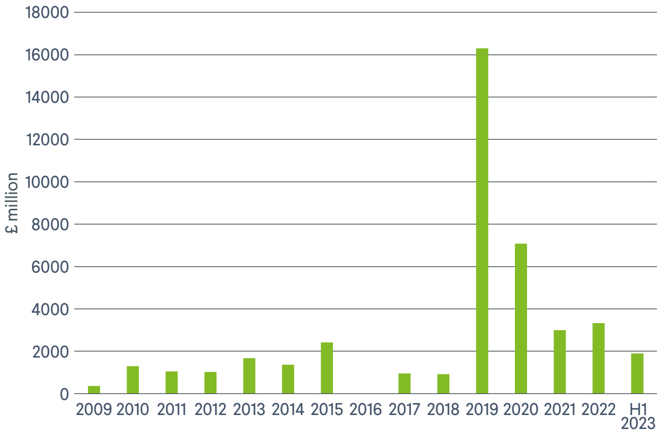
140

(across pricing, business development, transition and in-house buy-in administration)

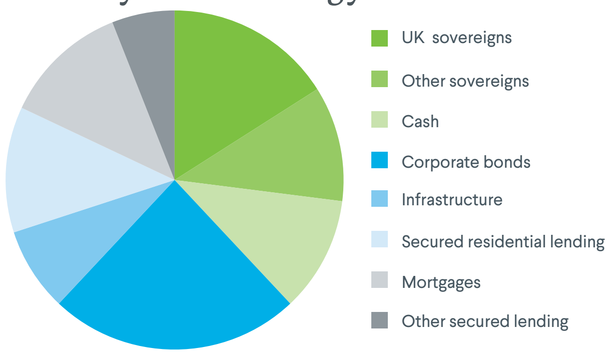
Administrator

Ring-fenced teams at WTW, Aptia and Capita

Volume of DB annuity transactions



Annuity asset strategy



Source: Provided in Rothesay interim condensed consolidated financial statements for the six months ended 30 June 2023

Financial strength – Rothesay Life plc

AKG	Fitch Rating
B+ (July 2023)	**A+** (May 2023)

Noteworthy recent transactions

Safeway Pension Scheme: £1.4bn buy-in covering over 22,500 pensioner and deferred members (April 2023)

The Co-operative Pension Scheme: £4bn buy-in covering nearly 50,000 members (November 2023)

Thales UK Pension Scheme: £2.7bn full buy-in covering over 16,000 members (December 2023)

Scottish Widows

2009 to end of H1 2023
Risk Transfer deals tracker

Transactions completed	Value of transactions	Average transaction size
39	£9,043m	£232m

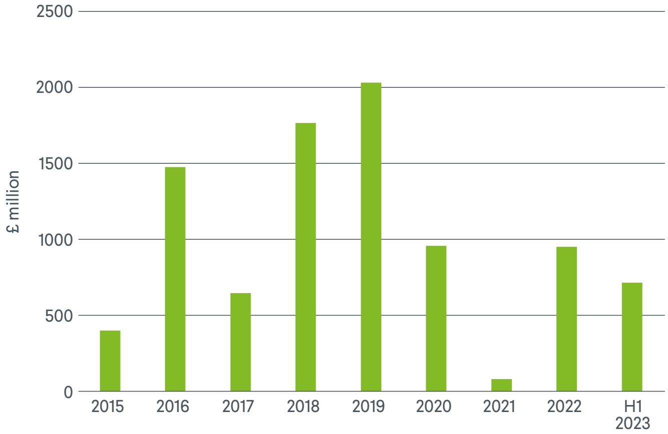
Twelve months ending 30 June 2023
Risk Transfer deals tracker

Market share	Number of transactions	Average transaction size
3%	4	£309m

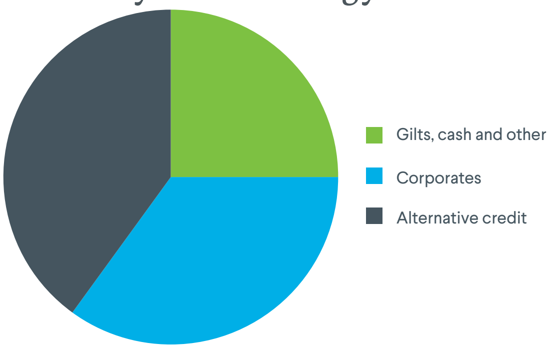
Team size
185
(including 20 in origination and operations, 40 in pricing, 55 in investment and 70 in other financial support services)

Administrator
Ring-fenced team at Mercer
(will change to Aptia upon the completion of due dilligence)

Volume of DB annuity transactions



Annuity asset strategy



Source: Provided by Scottish Widows, as at 30 June 2023

Financial strength – Scottish Widows Ltd

AKG	Fitch Rating
A (December 2022)	**A+** (November 2022)

Noteworthy recent transactions
Harrods Group Pension Plan: £380m buy-in covering around 4,000 pensioner and deferred members (June 2023)

Insurer summary insights

Standard Life

2009 to end of H1 2023

Risk Transfer deals tracker

Transactions completed	Value of transactions	Average transaction size
46	£19,900m	£432m

Twelve months ending 30 June 2023

Risk Transfer deals tracker

Market share	Number of transactions	Average transaction size
17%	17	£376m

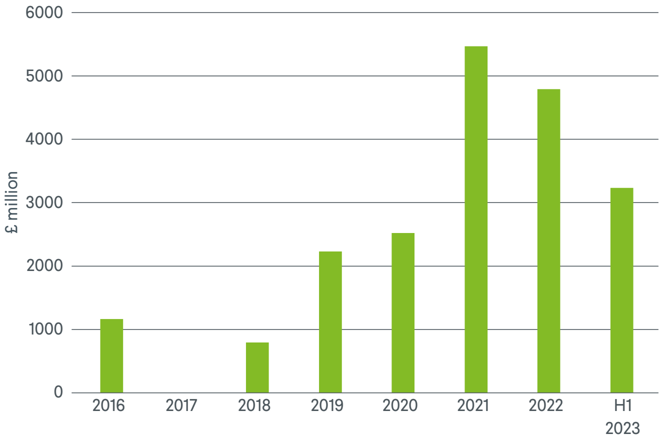
Team size

250
(including 28 in pricing and 37 in administration)

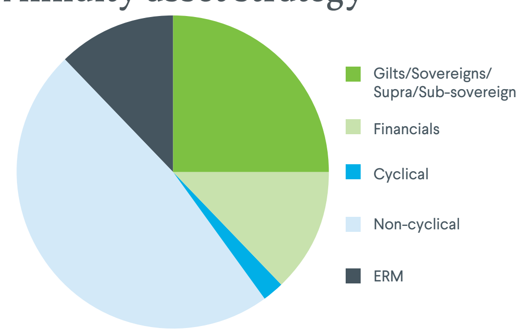
Administrator

Ring-fenced team at Equiniti

Volume of DB annuity transactions



Annuity asset strategy



Source: Provided by Standard Life from Phoenix Group Holdings plc's Interim Financial Report 2023, as at 30 June 2023.

Financial strength – Phoenix Group Limited trading as Standard Life

AKG	Fitch Rating
B+ (November 2023)	**AA-** (March 2023)

Noteworthy recent transactions

Mitchells & Butlers Pension Plan: £1.1bn buy-in covering around 20,200 pensioner and deferred members (May 2023)

Chubb Pension Plan and Chubb Security Pension Fund: £1bn buy-ins covering around 14,000 pensioner and deferred members (June 2023)

This communication has been compiled by Hymans Robertson LLP, and is based upon their understanding of events as at January 2024 and therefore may be subject to change. For further information, or to discuss any matter raised, please speak to your usual contact at Hymans Robertson LLP or one of the contacts named in this update. The update is general in nature, it doesn't provide a definitive analysis of the subject matter covered and it's not specific to the circumstances of any particular employer or pension scheme. The information it contains is not to be construed as investment advice and should not be considered a substitute for specific advice in relation to individual circumstances. Where the subject of this update refers to legal issues, please note that Hymans Robertson LLP is not legally qualified to give legal opinions; therefore, you may wish to obtain legal advice. Hymans Robertson LLP accepts no liability for errors or omissions.

Derivatives

All forms of derivatives can provide significant benefits, but may involve a variety of significant risks. Derivatives, both exchange-traded and OTC, include options, forwards, swaps, swaptions, contracts for difference, caps, floors, collars, combinations and variations of such transactions, and other contractual arrangements (including warrants) which may involve, or be based upon one or more of interest rates, currencies, securities, commodities, and other underlying interests.

The specific risks presented by a particular derivative transaction depends upon the terms of that transaction and your circumstances. It is important you understand the nature of these risks before entering into a derivative contract.

In general, however, all derivatives involve risk including (amongst others) the risk of adverse or unanticipated developments of a market, financial or political nature or risk of counter-party default.

In addition, you may be subject to operational risks in the event that your manager(s) does not have in place appropriate legal documentation or internal systems and controls to monitor exposures of this nature.

In particular, we draw your attention to the following: -

- Small changes in the price of the underlying security can lead to a disproportionately large movement, unfavourable or favourable, in the price of the derivative.
- Losses could exceed the amount invested. There may be a total loss of money/premium. Further, an investor may be called on to make substantial additional payments at short notice. Failure to do so in the time required can result in additional loss.
- The right to subscribe is invariably time limited; if such a right is not exercised within the pre-determined timescale, the derivative may be rendered worthless.
- Not all derivatives are liquid (that is, they may be difficult or, at times, impossible to value or sell). You may incur substantial costs if you wish to close out your position. OTC derivatives in particular can introduce significant liquidity risk and other risk factors of a complex character.
- OTC derivatives may result in exposure to the creditworthiness of the derivative counter-party.
- Derivatives used as part of 'protection' strategies may still expose the investor to an unavoidable difference between the underlying asset (or other interest) and the protection offered by the derivative.

General Investment Risk Warning

Please note the value of investments, and income from them, may fall as well as rise. This includes but is not limited to equities, government or corporate bonds, derivatives and property, whether held directly or in a pooled or collective investment vehicle. Further, investments in developing or emerging markets may be more volatile and less marketable than in mature markets.

Exchange rates may also affect the value of investments. As a result, an investor may not get back the full amount of the original investment. Past performance is not necessarily a guide to future performance

You could put the derivative warning on the back, but as an alternative suggestion, you could put it in page 12 in the 'what you can do section' as there is a space there after the other bullets and call it 'understand the risks of derivatives or illiquid assets' and you could put the part in yellow above on that. But I realise that the tone isn't exactly the same as the rest of that page. The General Investment Risk warning should go on the back.

If you are going to put them on the back, they should go after the current 'This communication has been compiled…' and before 'Hymans Robertson LLP is authorised and regulated.'.

Just a further point, this has a section on Club Vita, but I note that we don't have the Club Vita footer/address in as well as the HR LLP one, you don't necessarily have to have it in there as not regulated, but I thought it was normally placed on any comms which feature Club Vita.

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