

Buy-outs, buy-ins and longevity hedging - H2 2019

Managing pension scheme risk



Welcome to our half-yearly update, summarising the activity in the buy-in, buy-out and longevity hedging markets during the second half of 2019, and the year to 31 December 2019 ('the last year').

Buy-outs and buy-ins - Deals during the second half of 2019 ("H2 2019")

The total value of buy-out and buy-in deals struck in H2 2019 was around £26.3 billion (around £43.8 billion for the year to 31 December 2019).

Buy-out and buy-in deals	Number of deals completed			Value of deals completed		
	H1 2019	H2 2019	Total	H1 2019	H2 2019	Total
Aviva	19	35	54	£1,275m	£2,738m	£4,013m
Canada Life	5	3	8	£389m	£49m	£438m
Legal & General	15	16	31	£6,316m	£4,009m	£10,325m
Pension Insurance Corporation	8	9	17	£6,035m	£1,225m	£7,260m
Phoenix	2	3	5	£1,560m	£670m	£2,230m
Just	11	12	23	£512m	£720m	£1,232m
Rothesay Life	4	6	10	£715m	£15,585m	£16,300m
Scottish Widows	2	3	5	£770m	£1,260m	£2,030m
Total	66	87	153	£17,572m	£26,256m	£43,828m

Longevity swaps - Deals during H2 2019

Including the £10bn Lloyds Banking Group deal in 2020, fifty three deals, covering liabilities worth over £88 billion, have been completed since 30 June 2009.

Organisation	Date	No. of pension schemes	Provider	Approximate Value
Babcock	Q3 2009	3	Credit Suisse	£1.2 bn
RSA Insurance	Q3 2009	2	Rothesay Life	£1.9 bn
Berkshire	Q4 2009	1	Swiss Re	£1 bn
BMW	Q1 2010	1	Abbey Life	£3 bn
British Airways*	Q3 2010	1	Rothesay Life	£1.3bn
Pall	Q1 2011	1	JP Morgan	£0.1 bn
ITV	Q3 2011	1	Credit Suisse	£1.7 bn
Rolls Royce*	Q4 2011	1	Deutsche Bank	£3 bn
Pilkington	Q4 2011	1	Legal & General	£1 bn
Akzo Nobel	Q2 2012	1	Swiss Re	£1.4 bn
LV=	Q4 2012	1	Swiss Re	£0.8 bn
BAE Systems	Q1 2013	1	Legal & General	£3.2 bn
Bentley	Q2 2013	1	Abbey Life	£0.4bn
Carillion	Q4 2013	5	Deutsche Bank	£1bn
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 Swiss Re	£5bn
BT	Q2 2014	1	Own insurer conduit - PICA	£16bn
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	£2bn
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	£0.09bn
Serco*	Q4 2015	1	Undisclosed	£0.7bn
Pirelli Tyres Limited	Q3 2016	2	Zurich	£0.6bn
Manweb Group	Q3 2016	1	Abbey Life	£1bn
Unnamed	Q4 2016	1	Zurich	£0.05bn
Unnamed	Q4 2016	1	Legal & General	£0.9bn
Unnamed	Q1 2017	1	Zurich	£0.3bn
Skanska	Q2 2017	1	Zurich	£0.3bn
SSE*	Q2 2017	1	Legal & General	£0.8bn
Marsh & McLennan Companies	Q3 2017	1	Own insurer conduit - Canada Life Re and PICA	£3.4bn
BA	Q3 2017	1	Own insurer conduit - Canada Life Re and Partner Re	£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
Unnamed	Q4 2019	1	Zurich	£0.8bn
Lloyds Banking Group	Q1 2020	3	Scottish Widows - Pacific Life Re	£10.0bn
Total to date		53		£88.6bn

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

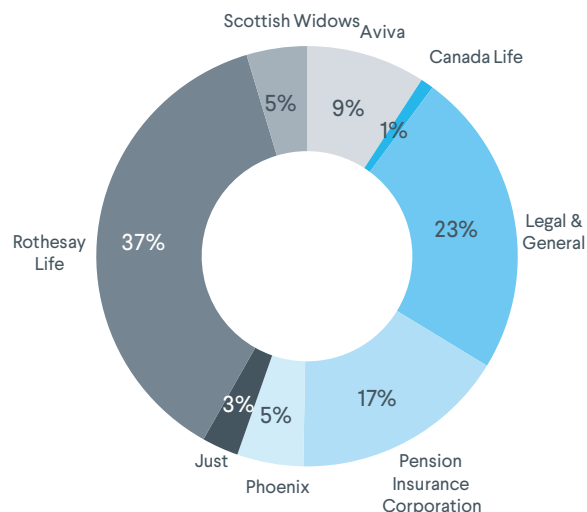
Risk transfers during the last year

Facts and figures

Buy-ins and buy-outs

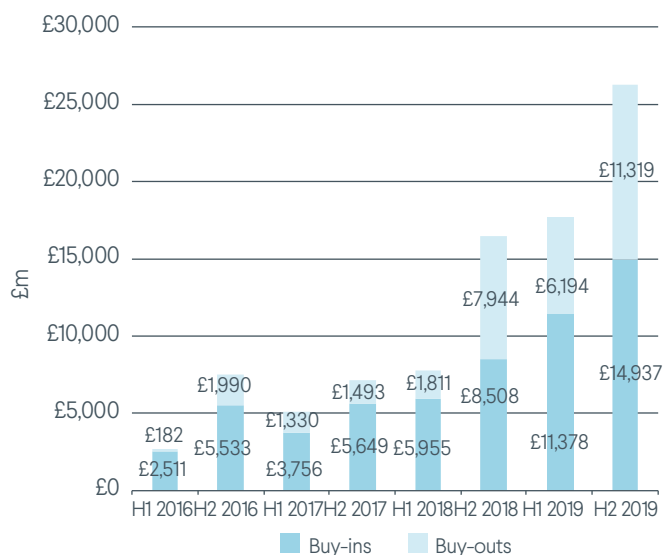
Market share (by value) during the year to 31 December 2019

The largest market share in the buy-in and buy-out market was Rothesay Life with c. 37% by value, followed by Legal & General with c. 23%.



Buy-ins v buy-outs

During the last year, the value of buy-ins was more than the value of buy-outs (around £17.5 billion of buy-outs versus around £26.2 billion of buy-ins).



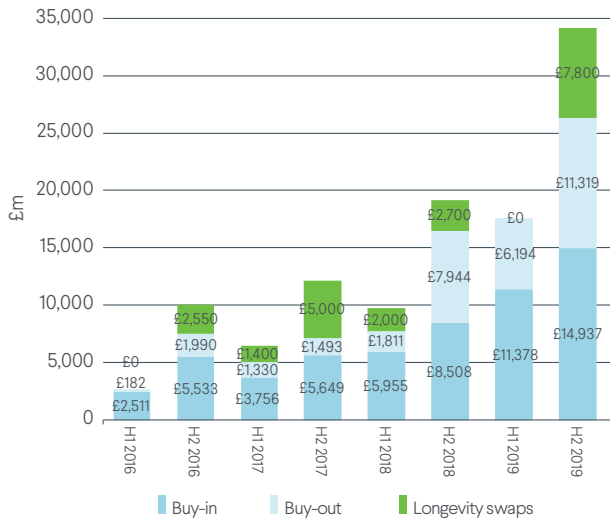
Largest buy-ins and buy-outs

The last year saw eighteen deals in excess of £500m.

	Pension Scheme	Provider	Value	Deal type	Date
1	Co-op	PIC	£425m	Buy-in	Q1 2019
2	Pearson	L&G	£500m	Buy-in	Q1 2019
3	Howden	L&G	£230m	Buy-in	Q1 2019
4	Rolls-Royce	L&G	£4,600m	Partial Buy-out	Q2 2019
5	QinetiQ	Scottish Widows	£690m	Buy-in	Q2 2019
6	Dresdner Kleinwort - Final Salary Section	PIC	£930m	Buy-in	Q1 2019
7	Dresdner Kleinwort - Money Purchase Section	PIC	£230m	Buy-in	Q1 2019
8	M&S	PIC	£940m	Buy-in	Q2 2019
9	M&S	Phoenix	£460m	Buy-in	Q2 2019
10	British American Tobacco	PIC	£3,400m	Buy-in	Q2 2019
11	Undisclosed	Rothesay Life	£440m	Buy-in	Q2 2019
12	PGL Pension Scheme	Phoenix	£1,100m	Buy-in	Q2 2019
13	Undisclosed	Aviva	£675m	Buy-in	Q2 2019
14	Undisclosed	Aviva	£200m	Buy-out	Q2 2019
15	Telent	Rothesay Life	£4,700m	Buy-out	Q3 2019
16	Allied Domecq (Pernod Ricard)	Rothesay Life	£3,800m	Buy-in	Q3 2019
17	Tate & Lyle	L&G	£930m	Buy-in	Q3 2019
18	Cadbury Mondelez	Rothesay Life	£520m	Buy-in	Q3 2019
19	Undisclosed	Just	£247m	Buy-in	Q3 2019
20	Undisclosed	Scottish Widows	£325m	Buy-in	Q3 2019
21	Asda	Rothesay Life	£3,800m	Buy-out	Q4 2019
22	Aviva	Aviva	£1,670m	Buy-in	Q4 2019
23	National Grid	Rothesay Life	£2,800m	Buy-in	Q4 2019
24	National Grid	L&G	£1,600m	Buy-in	Q4 2019
25	Scottish Hydro-Electric	PIC	£750m	Buy-in	Q4 2019
26	Electricity North West Limited	Scottish Widows	£805m	Buy-in	Q4 2019
27	Undisclosed	Phoenix	£240m	Buy-in	Q3 2019
28	Undisclosed	Phoenix	£290m	Buy-in	Q4 2019
29	ESAB Group	Rothesay Life	£255m	Buy-in	Q4 2019
30	Undisclosed	Aviva	£260m	Buy-out	Q2 2019
31	Undisclosed	Aviva	£240m	Buy-out	Q3 2019

Risk transfer deals (including longevity swaps)

Total pension scheme risk transfer deals over the last year covered liabilities of around £51.6 billion.

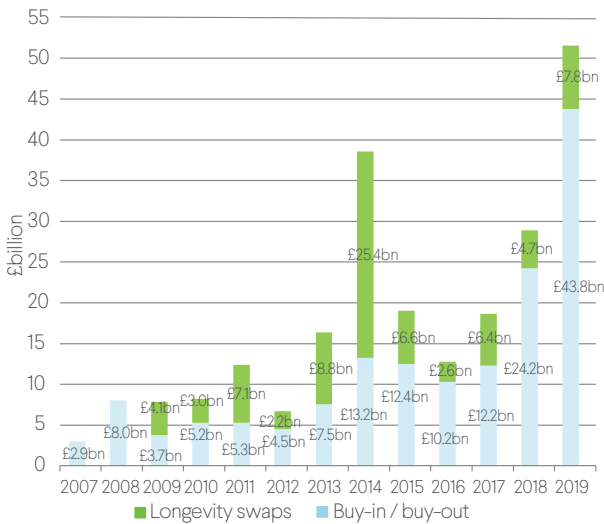


Average buy-in and buy-out deal size

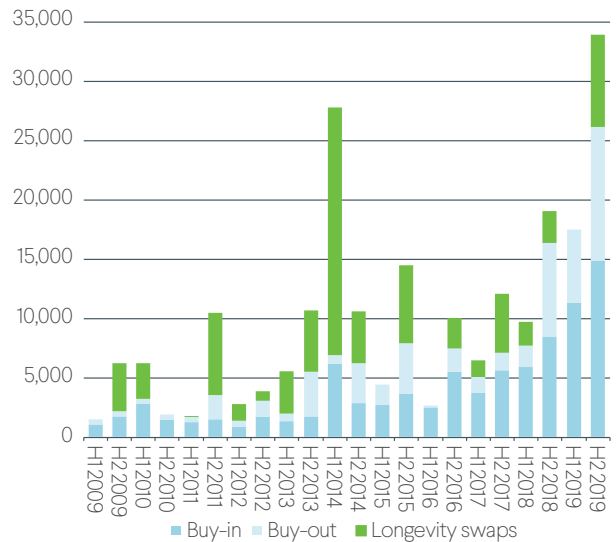
The overall average buy-in/buy-out deal size for the last year was £286 million, which is an increase over the previous year (£206 million).

	Total value of deals	Total number of deals	Average deal value
Aviva	£4,013m	54	£74m
Canada Life	£438m	8	£55m
Legal & General	£10,325m	31	£333m
Pension Insurance Corporation	£7,260m	17	£427m
Phoenix	£2,230m	5	£446m
Just	£1,232m	23	£54m
Rothsay Life	£16,300m	10	£1,630m
Scottish Widows	£2,030m	5	£406m
Totals	£43,828m	153	£286m

Volume of risk transfer deals since 2007 up to H2 2019



Half-yearly risk transfers since 2009



Buy-ins and Buy-outs

Buy-ins and buy-outs covered around £44 billion of pension scheme liabilities during the 12 months to 31 December 2019, with £26 billion completed in H2 2019, with eight insurance companies. Rothesay Life overtook Legal & General (L&G) to take the largest market share over the year (37%, by total value), followed by L&G and PIC with 23% and 17% respectively.

Highlights over H2 2019 were:

- The recent trend of record-breaking transactions continued as Telent completed a £4.7bn buy-out with Rothesay Life, which was the largest ever UK bulk annuity transaction.
- This was closely followed by the Allied Domecq and Asda pension schemes, who both completed £3.8bn transactions with Rothesay Life.
- National Grid secured two buy-ins with L&G and Rothesay Life, covering a total of £4.4bn of liabilities.
- Aviva secured £1.7bn of liabilities of the Aviva Staff Pension Scheme, covering around 5,800 deferred and pensioner members.

The bulk annuity market continues to show signs of further maturity as the volume of transactions over 2019 hit record levels.

Recent developments

There were five transactions over £3bn in 2019, compared with only one such transaction ever occurring in prior years. The impact of this was felt throughout the market.

Demand was not only driven by these larger pension schemes. There were over £15bn of transactions less than £1bn and 153 transactions during 2019 (a few less than over 2018). 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. During 2019, it 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.

This means that, going forwards, pension schemes need to carefully plan how they approach the insurance companies for buy-in and buy-out quotations and demonstrate why they should be a high priority case. Insurers will undoubtedly favour those who have already done the necessary groundwork, and who can demonstrate a clear intent to transact. Hymans Robertson's strong risk transfer experience, robust broking process and deep knowledge of insurance companies means that we can provide pension schemes with precisely the strategy they need in order to best engage the insurance market.

COVID-19 and market outlook

Prior to the COVID-19 outbreak, we expected the market to remain busy into 2020, albeit with fewer multi-billion pound transactions than seen in 2019.

Since the onset of COVID-19, pension schemes will have seen high volatility in their assets, driven by widening of credit spreads, material changes to long-term interest rates and equities falling back to levels not seen since 2011. The unfolding development of COVID-19 will have a number of implications on buy-in and buy-out pricing.

- We expect pricing to improve, although this will be variable across insurers and schemes and will be highly dependent on the investment strategy and duration of scheme liabilities. Whilst credit assets used by insurers to back liabilities fall in price, insurers will need to make a larger allowance for default risk.
- We may see insurer capacity reducing as widening credit spreads lead to smaller issuances of corporate bonds. This could lead to reliance on the less liquid secondary market to purchase corporate bonds. Other asset classes used to deliver attractive pricing, including infrastructure and equity release, may be less readily available.
- However, at a high level, we expect some schemes to be pausing to consider whether their transaction remains appropriate, meaning that demand is sufficiently slowed, allowing flexibility for the capacity challenges to not be a material issue.

With regards to transfer of longevity risk, recent slowdowns in longevity trends have led to attractive pricing for longevity in recent years. Longevity risk has been increasingly hedged through buy-in transactions and a number of longevity swaps have been converted into bulk annuity policies. Notably:

- In 2019, Rolls Royce converted their longevity swap from 2011 as part of a £4.6bn partial buy-out with L&G.
- In October 2019, the Scottish Hydro Electric Pension Scheme converted their £750m longevity swap with PIC to a buy-in, as advised by Hymans Robertson.

However, where schemes are now looking to transfer longevity risk in isolation through a longevity swap, we would suggest that there are reasons to wait until the full impacts of COVID-19 on longevity are fully understood.

Insurers and reinsurers are likely to price prudently given that there is not enough data to sufficiently predict the scale of a short-term mortality spike in pensioner populations, although the impact will be clearer once the first wave of COVID-19 has passed.

In the context of a buy-in, it may be possible to de-risk now and agree a future date on which the insurer takes on the mortality risk.

Longevity swaps

Pension scheme longevity swap transactions have now covered almost £89bn of pension scheme liabilities since mid-2009, with a single £10bn transaction completed in 2020 and two transactions completed in the second half of 2019 totalling £7.8bn.

As the first transaction of 2020, Lloyds Banking Group, facilitated by Scottish Widows, covered around £10bn of liabilities across three pension schemes in the second-largest longevity swap to date. Pacific Life acted as the reinsurer for the swap.

Transactions over 2019 included:

- A longevity swap by an undisclosed FTSE-100 sponsored scheme with Hannover Re, using Zurich as an intermediary. Hymans Robertson advised on this transaction and used a new-to-market solution developed with the provider, making this the first transaction to allow the scheme to take on exposure of the reinsurer's (Hannover Re's) credit risk, with Zurich retaining a minority share of longevity risk.
- A longevity swap by HSBC covering £7bn of liabilities of the HSBC Bank (UK) Pension Scheme with HSBC using its own captive as the intermediary. This is the third largest UK pension scheme longevity swap written to date and is also the first to use a Bermuda based captive as the intermediary.

There are a number of different structures that can be used to access the longevity reinsurance market, ranging from fully 'intermediated' structures to captive insurance vehicles. Longevity swaps continue to use a wide range of these structures based on what is most appropriate for the circumstances of any given scheme.

Notable examples of the various structures include the £800m longevity swap by SSE which used a UK-based pass through structure to transfer longevity risk to the end reinsurer efficiently. Hymans Robertson were lead advisors on this transaction. The Aviva Staff Pension Scheme, also advised by Hymans Robertson, was the first of its kind that allowed longevity risk to be transferred directly to the reinsurance market without making use of a traditional longevity swap intermediary.

Traditional intermediaries aren't falling out of favour though, with National Grid transacting a more 'traditional' £2bn longevity swap in 2018 which was 'fully' intermediated through the UK-based arm of Zurich Insurance.

The smaller end of the market has also benefitted from a number of streamlined longevity swap structures, enabling smaller schemes to address their longevity risk where a bulk annuity remains inappropriate. This was highlighted by the smallest 'named-life' longevity swap to date of £50m between an undisclosed pension scheme and Zurich in 2016, reinsured by Pacific Life re. L&G also transacted its first streamlined longevity swap of £300m in 2018, bringing added choice for smaller schemes.

FTSE 100 pension scheme risk transfer deals:

FTSE 100 company	Provider	Value	Deal type	Date
Smiths Group	L&G	£250m	Buy-in	Mar 2008
	Paternoster	£250m	Buy-in	Sep 2008
	Rothsay Life	£150m	Buy-in	Dec 2011
	PIC	£170m	Buy-in	Sep 2013
Lonmin	Paternoster	Undisclosed	Buy-out	May 2008
Friends Provident	Aviva	£350m	Buy-in	May 2008
Cable & Wireless	Prudential	£1,000m	Buy-in	Sep 2008
RSA Insurance	Rothsay Life	£1,900m	Longevity swap	Jul 2009
Cadbury Schweppes	PIC	£500m	Buy-in	Dec 2009
Liberty International	PIC	£61m	Buy-out	Feb 2010
British Airways	Rothsay Life	£1,300m	Buy-in	Jun 2010
	Rothsay Life*	£1,300m	Longevity swap	Dec 2011
Next	Aviva	£124m	Buy-in	Aug 2010
GlaxoSmithKline	Prudential	£892m	Buy-in	Dec 2010
ITV	Credit Suisse	£1,700m	Longevity swap	Aug 2011
Rolls-Royce	Deutsche Bank*	£3,000m	Longevity swap	Nov 2011
	L&G	£4.6bn	Partial Buy-out	Jun 2019
Tate & Lyle	L&G	£347m	Buy-in	Dec 2012
Bae Systems	L&G	£3,200m	Longevity swap	Jan 2013
	L&G	£1,700m	Longevity swap	Dec 2013
InterContinental Hotels	Rothsay Life	£440m	Buy-out	Aug 2013
AstraZeneca	Deutsche Bank	£2,500m	Longevity swap	Dec 2013
Aviva	Swiss Re/ Munich Re/ SCOR	£5,000m	Longevity swap	Mar 14
BT Group	PICA	£16,000m	Longevity swap	Jun 2014
ScottishPower	Abbey Life	£2,000m	Longevity swap	Dec 2014
Kingfisher	L&G	£230m	Buy-in	Dec 2015
Land Securities	Just	£110m	Buy-in	Dec 2016
	PIC	£350m	Buy-in	Q1 2017
SSE	L&G*	£800m	Longevity swap	Q1 2017
3i Group	PIC	£200m	Buy-in	Mar 2017
BA	Canada Life Re and Partner Re	£1.6bn	Longevity swap	Aug 2017
Pearson	Aviva	£600m	Buy-in	Oct 2017
	L&G	£600m	Buy-in	Oct 2017
Kingfisher	PIC	£210m	Buy-in	Jan 2018
	Aviva	£925m	Buy-in	Mar 2018
M&S	Phoenix	£470m	Buy-in	Mar 2018
	PIC	£940m	Buy-in	Apr 2019
	Phoenix	£460m	Buy-in	Apr 2019
National Grid	Zurich	£2bn	Longevity swap	May 2018
	Rothsay Life and L&G	£4.4bn	Buy-in	Oct 2019
Airways	L&G	£4.4bn	Buy-in	Sept 2018
Rentokil	PIC	£1.5bn	Buy-in	Dec 2018
Pearson	L&G	£500m	Buy-in	Feb 2019
Phoenix	Phoenix	£1.1bn	Buy-in	Mar 2019
3i Group	L&G	£95m	Buy-in	Apr 2019
HSBC	Own insurer conduit - PICA	£7.0bn	Longevity swap	Jul 2019
British American Tobacco	PIC	£3.4bn	Buy-in	Jun 2019
Smiths Group	Canada Life	£176m	Buy-in	Jul 2019
Aviva	Aviva	£1.7bn	Buy-in	Oct 2019
Lloyds Banking Group	Pacific Life Re	£10.0bn	Longevity swap	Jan 2020

*since original swap transaction date these have been converted to buy-ins.

FTSE 250 pension scheme risk transfer deals:

FTSE 250 company	Provider	Value	Deal type	Date
Weir Group	L&G	£240m	Buy-in	Dec 2007
Rank	Rothesay Life	£700m	Buy-out	Feb 2008
Morgan Advanced Materials	Lucida	£160m	Buy-out	Mar 2008
BBA	L&G	£270m	Buy-in	Apr 2008
Dairy Crest	L&G	£150m	Buy-in	Dec 2008
	L&G	£160m	Buy-in	Jun 2009
Babcock	Credit Suisse	£1,200m	Longevity swap	Jul 2010
Aggregate Industries	PIC	£305m	Buy-in & Buy-out	Mar 2010
Undisclosed	L&G	£220m	Buy-in	Jun 2010
London Stock Exchange	PIC	£203m	Buy-in	May 2011
Home Retail Group	Prudential	£280m	Buy-in	May 2011
Cobham	Rothesay Life	£280m	Buy-in	July 2013
Jardine Lloyd Thompson	Prudential	£120m	Buy-in	Oct 2013
Carillion	Deutsche Bank	£1,000m	Longevity swap	Dec 2013
Jardine Lloyd Thompson	Prudential	£85m	Buy-in	Jan 2014
Interserve	Aviva	£338m	Buy-in	Aug 2014
Taylor Wimpey	Partnership	£206m	Buy-in	Dec 2014
Inchcape plc	Aviva	£297m	Buy-out	Dec 2015
A.G. Barr	Canada Life	£35m	Buy-in	Sept 2016
Tullett Prebon	Rothesay Life	£270m	Buy-out	Mar 2017
Hays	Canada Life	£271m	Buy-in	Aug 2018
National Express	Rothesay Life	£105m	Buy-in	Oct 2018
QinetiQ	Scottish Widows	£690m	Buy-in	Apr 2019
Tate & Lyle	L&G	£930m	Buy-in	Sep 2019

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