HYMANS ROBERTSON

RISK TRANSFER | **SPOTLIGHT**

What new entrants mean for the bulk annuity market

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.

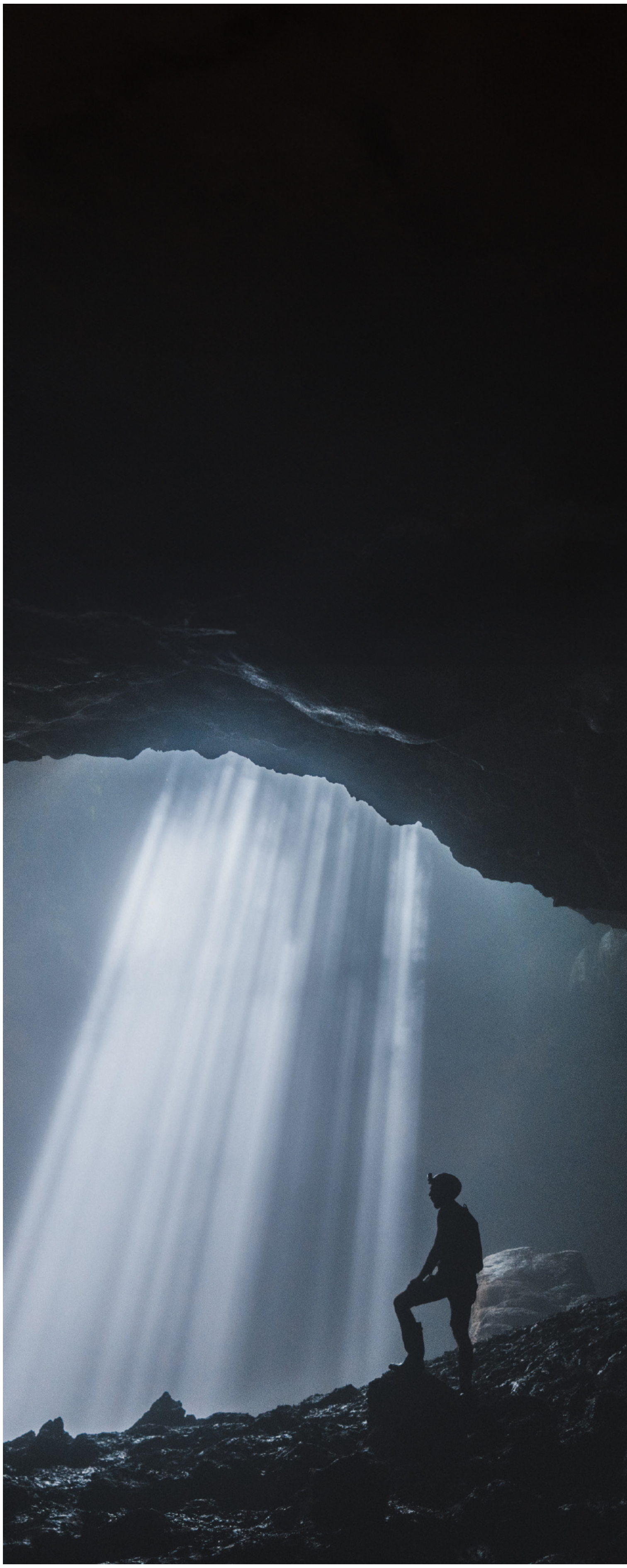
After several years of rumours about potential new entrants, M&G re-entered the bulk annuity market in 2023 through its insurance company, Prudential Assurance Company Ltd, making it the first new entrant since 2017. Prudential Assurance Company Ltd stopped writing bulk annuities in 2017, but continues to manage a UK back book of annuities, which total around £20bn.

At the time of writing, M&G has completed two buy-ins of similar size 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 as more pension scheme trustees considered 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 back book, Just Retirement and Partnership merge to form **Just**
- 2017 — Phoenix Group (rebranded as **Standard Life** in 2021)
- 2023 — **M&G** (through Prudential Assurance Company Ltd)



How new entrants compare with established players

Price has always been important for selecting a preferred insurer, but trustees are typically now assessing insurers on a much wider range of capabilities than when new entrants 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 (even if small) on an insurance measure. Trustees in this situation have the flexibility to pay a little more to transact with a preferred subset of insurers that meet non-price criteria. Trustees would seek advice specific to their circumstances, but the criteria are likely to include:

- **Financial strength.** Trustees may commission a sponsor covenant report to review the financial strength of an insurer, and how it compares with its peers and minimum regulatory requirements.
- **ESG factors.** Trustees may want to know insurers' positions on ESG factors, and often have minimum expectations, such as evidence of acceptable positions on net zero or responsible investment.
- **Administration capacity and quality.** The administration market is under pressure, owing to GMP equalisation work, and data preparation and cleansing related to buy-ins. Trustees may want assurance that an insurer has the people and systems to provide high-quality administration.
- **Buy-out capabilities.** In the years following 2006, schemes focused on pensioner-only buy-ins, and buy-out was a distant ambition for many. Schemes coming to market now are typically looking to move quickly to buy-out, so insurers need the capacity to issue and manage individual policies, and have member-facing administration services.
- **Brand awareness.** With an eye on buy-out, most trustees enter into a transaction expecting members to ultimately have a direct relationship with the insurer. They might see a brand name that members know and trust as helpful.

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 their capabilities in a range of areas, and work hard to give as much assurance as possible to back up their business plans and promises.

How might trustees engage with new providers?

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 necessary to make decisions, and will let their pension schemes quickly lock in if they receive attractive pricing.

How might new entrants approach the first series of transactions?

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.

New entrants may well decline to quote when they aren't clear how they'll be assessed, so they'll be keen to hear from trustees with a clear view on this.

Want to find out more?

Hymans has consistently been at the vanguard of innovation since the trend towards de-risking started in 2006, including projects with new entrants to the buy-in market. We've worked with trustees, sponsors and insurers on groundbreaking transactions and market firsts, including new propositions for insurers and transactions that provide additional security.. If you'd like to discuss your scheme's approach to the risk transfer market, please get in touch.

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