HYMANS ROBERTSON

RISK TRANSFER | **SPOTLIGHT**

Exclusive broking processes – when less is more

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. 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 will depend 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 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 also making exclusivity a condition of quoting for a small scheme.

In our experience, exclusivity still leads to competitive pricing. 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 do not give an excellent price, advisers and professional trustees are unlikely to use them for exclusive processes in the future. This creates downward price pressure in its own right.

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

Case study: *illiquid assets*

A pension scheme completed a £230m pensioner buy-in with Standard Life in 2021 following a competitive tender. However, the scheme's illiquid assets were a barrier to insuring the remainder of the scheme, and very attractive pricing was needed to make a final buy-in affordable.

After a short period of price monitoring exclusively with Standard Life, the trustees secured pricing and terms that met their requirements for insuring the remaining benefits. To accommodate their illiquid assets, we also agreed a bespoke contract structure. As a result, the final £200m buy-in was transacted in 2022.

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 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 could help a scheme that has an insurer in mind – for example, one that's known to be pricing competitively for that scheme's liability profile.

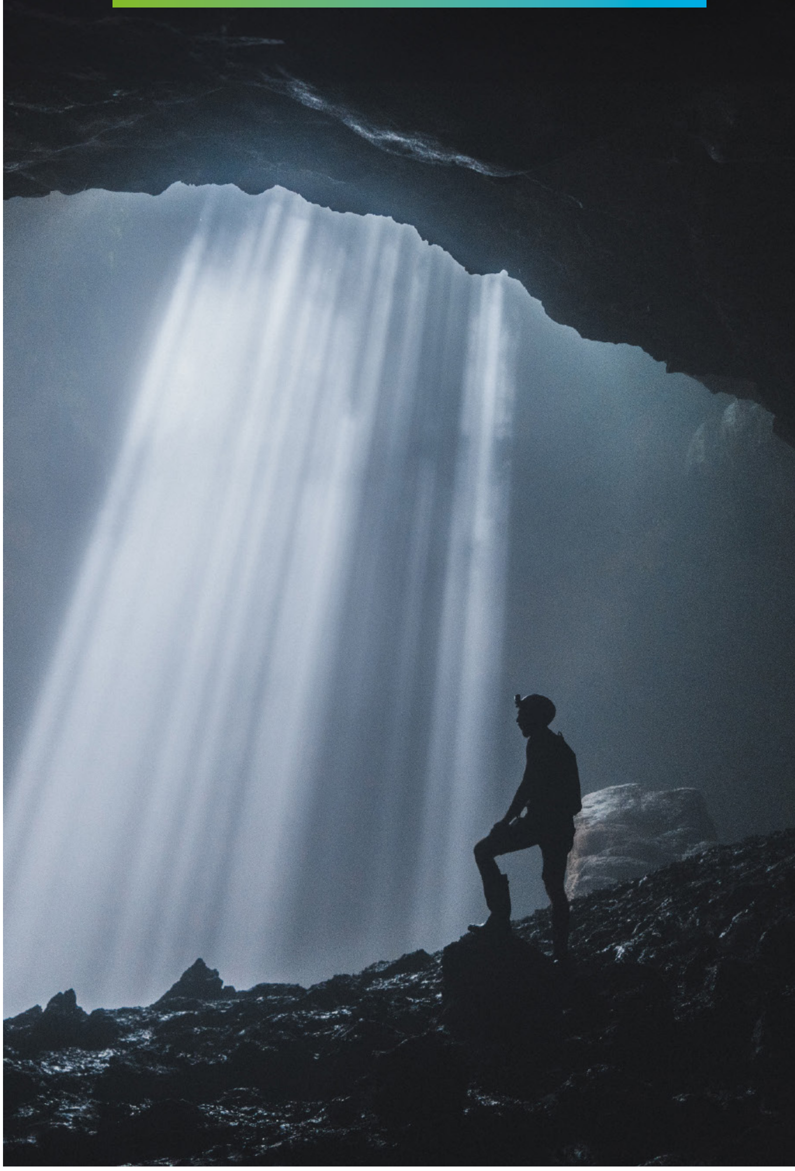
A traditional market approach doesn't always deliver a solution that fully accounts for the requirements a scheme might have, and a more tailored transaction structure through an exclusive relationship could help the scheme. For example, a scheme might need flexibility for illiquid assets, a tailored price lock or specific contractual requirements.

A scheme's broking approach might also be influenced by the trustee's or company's objectives. The transaction might need to happen more quickly than it would under an auction process, for example. For some trustees and sponsors, non-price factors are as important as price, and these may move the scheme towards one insurer.

Case study: *tight timeframe*

A scheme needed a buy-in transaction to be completed in a condensed timeframe. The timing aligned with the end-of-year rush, with the market busy as insurers focused on completing deals before the Christmas break.

The scheme agreed to work exclusively with an insurer who was pricing very competitively at the time. By structuring the process this way, the transaction completed within six weeks of Hymans Robertson's appointment as risk transfer adviser – capturing very attractive pricing for a £120m buy-in.



Which insurer?

Part of the decision to go exclusive is choosing an insurer – in many cases, a scheme wants an exclusive relationship because it already has an insurer in mind. But it's worth examining some of the factors that could influence the choice of insurer once the decision for exclusivity has been made.

Among the most important non-price factors are the insurer's solvency and financial strength. These in turn affect the strength of the covenant attached to the insurance policy.

Another important factor is the member experience. After the buy-out process, administration will be the insurer's responsibility, and schemes want comfort the insurer will look after the members well.

A scheme will wish to consider the insurer's record and brand in this context. Member option terms could also be important to some schemes, as they'll affect the level of benefits members will receive, and can vary according to the insurer.

Other schemes 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.

Finally, the insurer must have the capacity to deliver the transaction and the flexibility to meet the scheme's requirements. These include any timing requirements as well as commercial terms, such as assets the insurer can take.

Case study: *non-price factors*

A 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 £100m buy-in on attractive terms, and all the scheme's non-price requirements were satisfied, including some bespoke transaction structuring.

Want to find out more?

Hymans Robertson is a leading risk transfer consultancy, with a team that has extensive experience of delivering tailored broking approaches for schemes of all sizes. If you'd like to discuss your scheme's approach to the risk transfer market, please get in touch.

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