HYMANS ROBERTSON

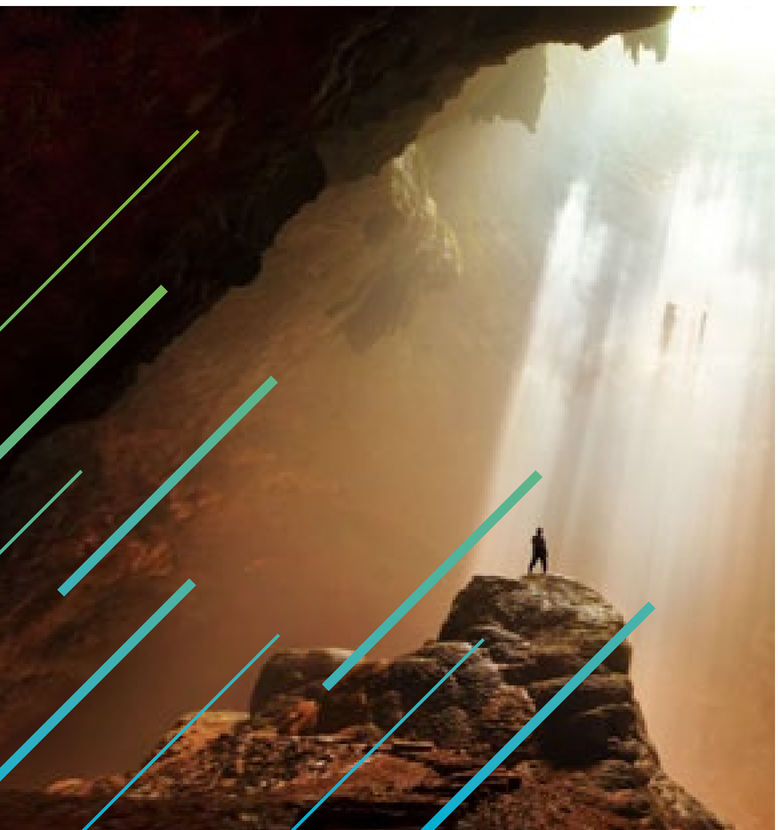
RISK TRANSFER | **SPOTLIGHT**

Insurers step to the plate: The new era of small scheme risk transfer

In recent years, the funding position of many pension schemes has improved to a level where they can afford to fully insure benefits. Many are therefore looking to approach the increasingly busy insurance market for buy-in quotations. To meet this surge in demand, insurers have looked at ways to increase their capacity to quote and then transact with smaller schemes.

With this move, insurers have increasingly turned to technology and have looked to remove friction from existing processes to reduce the sunk costs of quoting on and then transacting with small schemes. Four insurers in the bulk annuity market have now developed dedicated streamlined propositions for smaller pension schemes, and we expect more insurers to follow this trend.

In a recent Hymans webinar aimed at pension schemes below £200m, almost half of attendees said they see generating sufficient insurer engagement as their biggest challenge to insuring their scheme. As insurers expand capacity through increased efficiencies, this challenge should reduce. However, each insurer's offering has key differences, and detailed understanding of these is crucial to maximise insurer engagement and secure the best outcome for smaller schemes.



Move towards insurers' streamlined processes

In the past, many consultancies (ourselves included) agreed their own streamlined transaction processes with insurers. These had standardised benefit and data formats, and often involved teaming up with a legal firm to agree pre-negotiated contracts with each insurer.

These existing processes can still have a place in the right circumstances, but the market has generally moved on in recent years. Many insurers now require schemes follow the insurers' own processes rather than a myriad of approaches proposed by different consultancies. This gives the insurer more process certainty and control over both the pre- and post-transaction phases, making it easier for them to manage their own resource and operational commitments.

For instance, in an insurer's process, the insurer gives the scheme trustees a standard data and benefit template to complete. These templates map directly onto the insurer's pricing system, helping the insurer price deals efficiently. Increasingly these templates also include automated data validations to ensure that data meets minimum standards for data quality.

Comparing insurers

To date, four insurers have announced streamlined propositions designed for small schemes. We expect these propositions to evolve as the market develops, and other insurers to explore introducing their own.

Table 1. Insurers' streamlined offerings for small schemes (based on information provided by the respective insurers).

Small scheme proposition	Minimum scheme size	Exclusivity required?	Restrictions on scheme benefits	Typical time to quote	Price monitoring available?	Insurer expectation on contractual terms	Price locks available?
Aviva Clarity	None, but schemes smaller than £10m need to be flexible on timing	No, but exclusivity may help speed up quotation	Minimal, the template accommodates all main benefits	4 weeks	No	Standard terms with no negotiation	Yes
Just Beacon	None	No	Minimal, the template accommodates all main benefits	4 weeks	Yes	Standard terms or pre-agreed contracts with minimal or no negotiation	Yes
L&G Flow	Generally £20m, but smaller schemes can be taken on if pricing slots are available. Minimum threshold expected to decrease in 2025.	No, but exclusivity will help prioritisation	Minimal, the template accommodates all main benefits	4 weeks	No	Standard terms with no negotiation	Yes and especially able to closely align with LGIM assets
PIC Mosaic	£25m	Not required for indicative pricing. Preferable for guaranteed pricing to commit resource	Restrictions on some complex benefits	6 weeks	Yes, limited to 6 months after quotation on indicative basis	Standard terms or pre-agreed contracts with minimal or no negotiation	Yes

Streamlined process considerations

Trustees of small schemes have generally welcomed streamlined insurer propositions. However, they should be mindful of the drawbacks so they can be planned for and proactively managed.

Benefits

- **Greater insurer engagement.** Streamlined processes increase an insurer's capacity to quote on small schemes which can lead to increased competition. For example, all the transactions we advised on in 2023 under £30m, received quotes from multiple insurers. Similar small schemes may have struggled to get this level of engagement in the past.
- **Efficiency and speed.** Streamlined processes speed up transactions and make the whole process more efficient - an essential step for insurers trying to service these increased market volumes. Standard templates and terms mean that most small schemes can go from approaching the market for quotations to completing a transaction in two to three months.

Serving an evolving market

In this busy market, the development of streamlined propositions to help increase insurer engagement and improve efficiencies is a welcome development for smaller schemes. However, trustees should be mindful of the restrictions and lack of flexibility that may come about from these propositions and ensure their broking process is structured appropriately to get the best outcome. Streamlined insurer offerings are likely to continue to develop as the bulk annuity market evolves.

Other considerations

- **Process differences between insurers.** Each insurer's process is structured slightly differently, which needs careful planning to account for potential timing differences for receiving quotations, whether quotations are transactable or indicative, and whether scheme specific requirements can be accommodated.
- **More up-front work.** Although a streamlined process might result in a faster transaction, trustees have more work to do up front. Completing distinct templates for each insurer requires trustees and their advisers to invest more up front than they would if sending out the same data template and benefit specification to all insurers.
- **Restrictions.** An insurer may restrict the types of benefits that it is willing to insure, generally based on whether that benefit can be accommodated within the insurer's template. In our experience, the majority of scheme benefits can be accommodated, but some Trustees may need to look to remove benefit complexities, such as complex underpins.
- **Less flexibility on contractual terms.** To ensure the pre- and post-transaction processes are aligned across all of an insurer's streamlined transactions so that the intended efficiencies are realised, insurers may be resistant to depart from their standard contractual terms. This may mean certain bespoke scheme requirements cannot be accommodated. However, the buy-in contracts on offer have been shaped by negotiations with many lawyers in the past and are typically viewed as a positive set of terms for trustees to sign up to.

Want to find out more?

Our risk transfer team specialises in handling transactions of all sizes with significant expertise and experience. For any inquiries or assistance for schemes below £200m, please reach out to:

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