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Is now the right time to enter the UK bulk annuity market?

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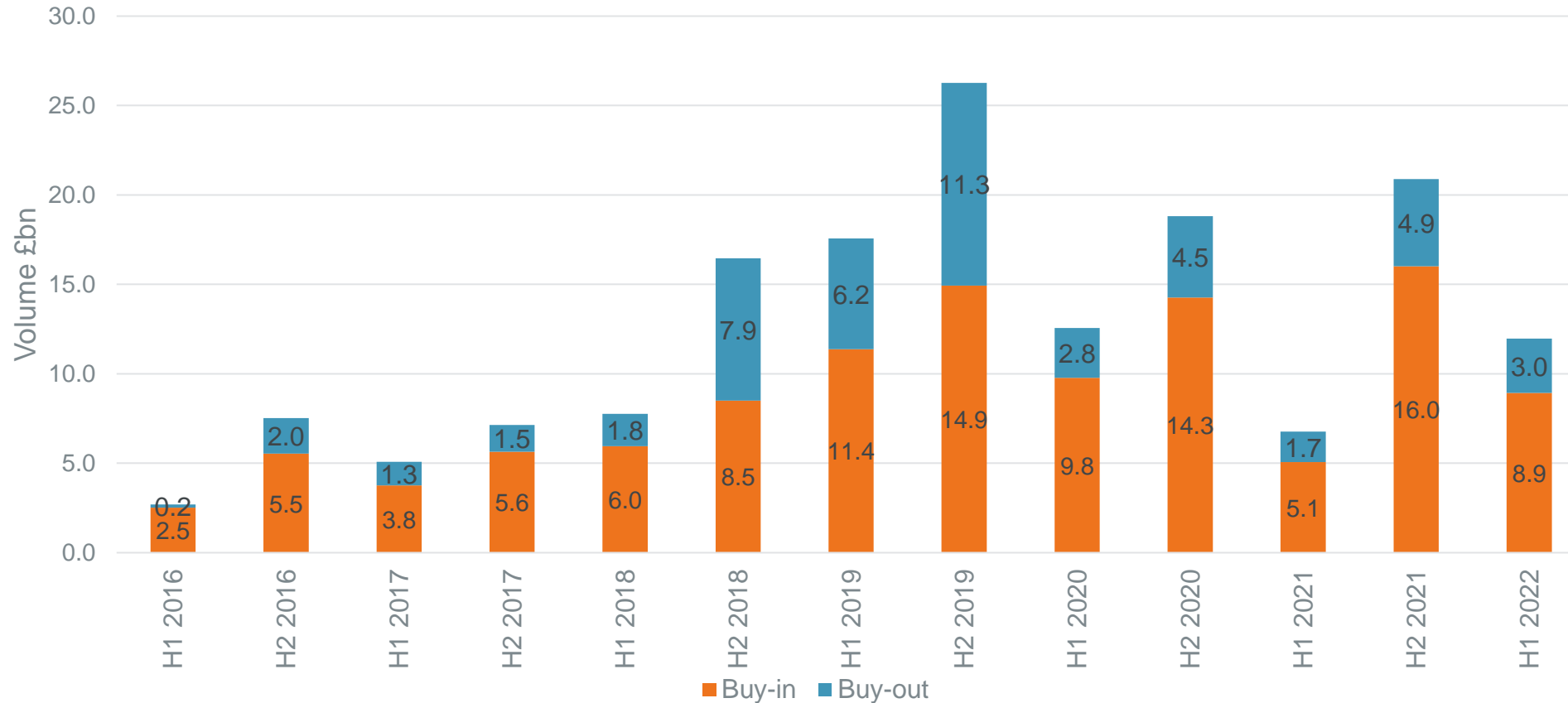
Agenda

- Introductions
- Context for the opportunity
- Why would you enter the market?
- What do you need to enter the market?
- Conclusion



Context: the UK BPA market over time

UK Pension Risk Transfer transactions by half year

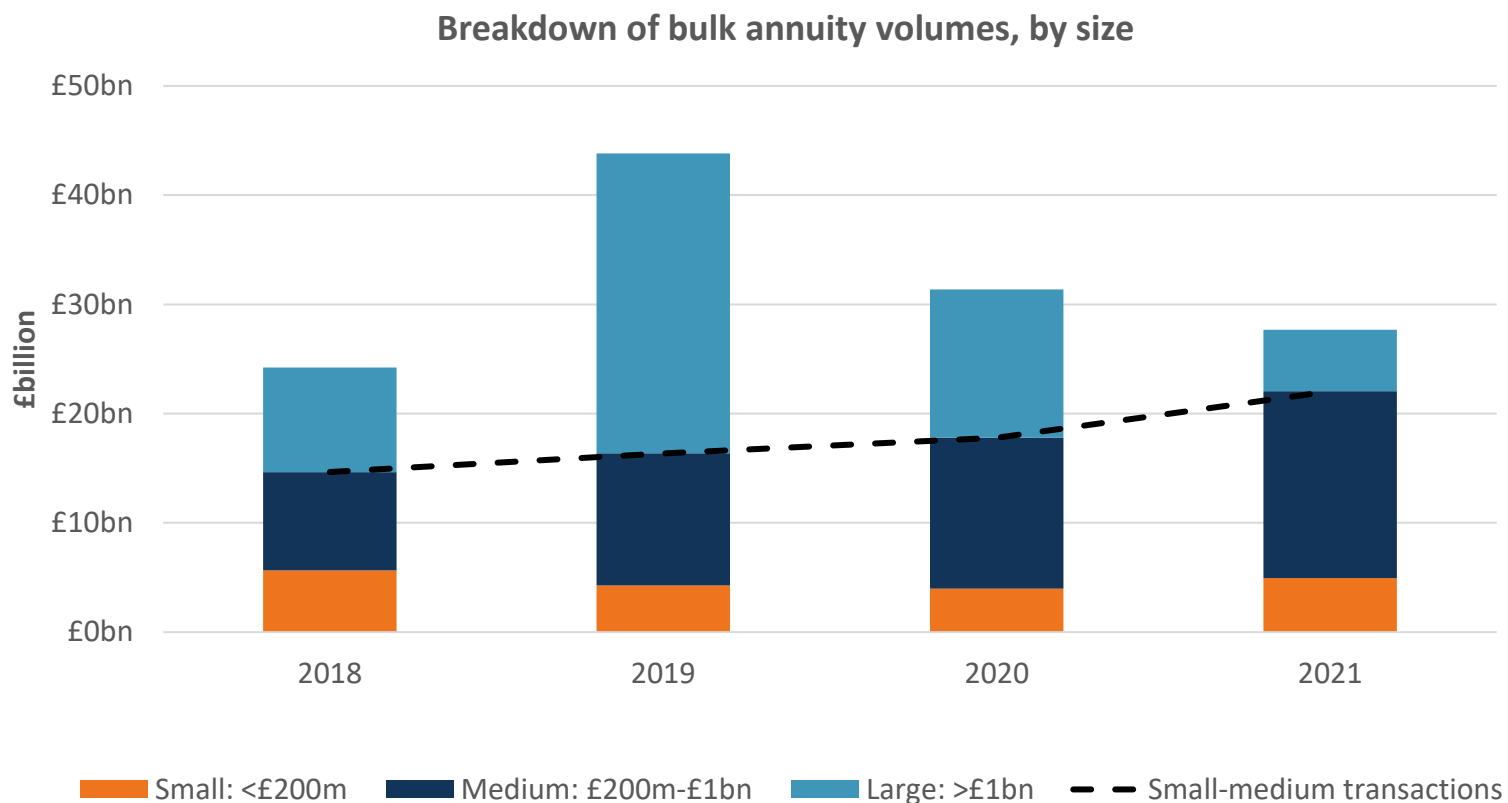


Source: Hymans Robertson analysis of publicly available information and data insurers have disclosed to us.



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Context: the UK BPA market by deal size



Source: Hymans Robertson analysis of publicly available information and data insurers have disclosed to us.



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Context: players in the (direct) UK BPA market

	Defferreds?	<£50m	£50m - £100m	£100m - £0.5bn	£0.5bn - £2bn	>£2bn
Aviva	✓	●	●	●	●	●
Canada Life	✗	●	●	●	●	●
Just	✓	●	●	● ●	●	●
Legal & General	✓	●	●	●	●	●
PIC	✓	●	●	●	●	●
Rothesay	✓	●	●	● ●	●	●
Scottish Widows	✓	●	●	●	●	●
Phoenix	✓	●	●	● ●	●	●

✗ Unable to write
 ✓ Able to write

● Unlikely to quote
 ● More selective
 ● More likely to quote

- This table has had progressively less red over the last few years
- Being able to quote on defferreds has become more important

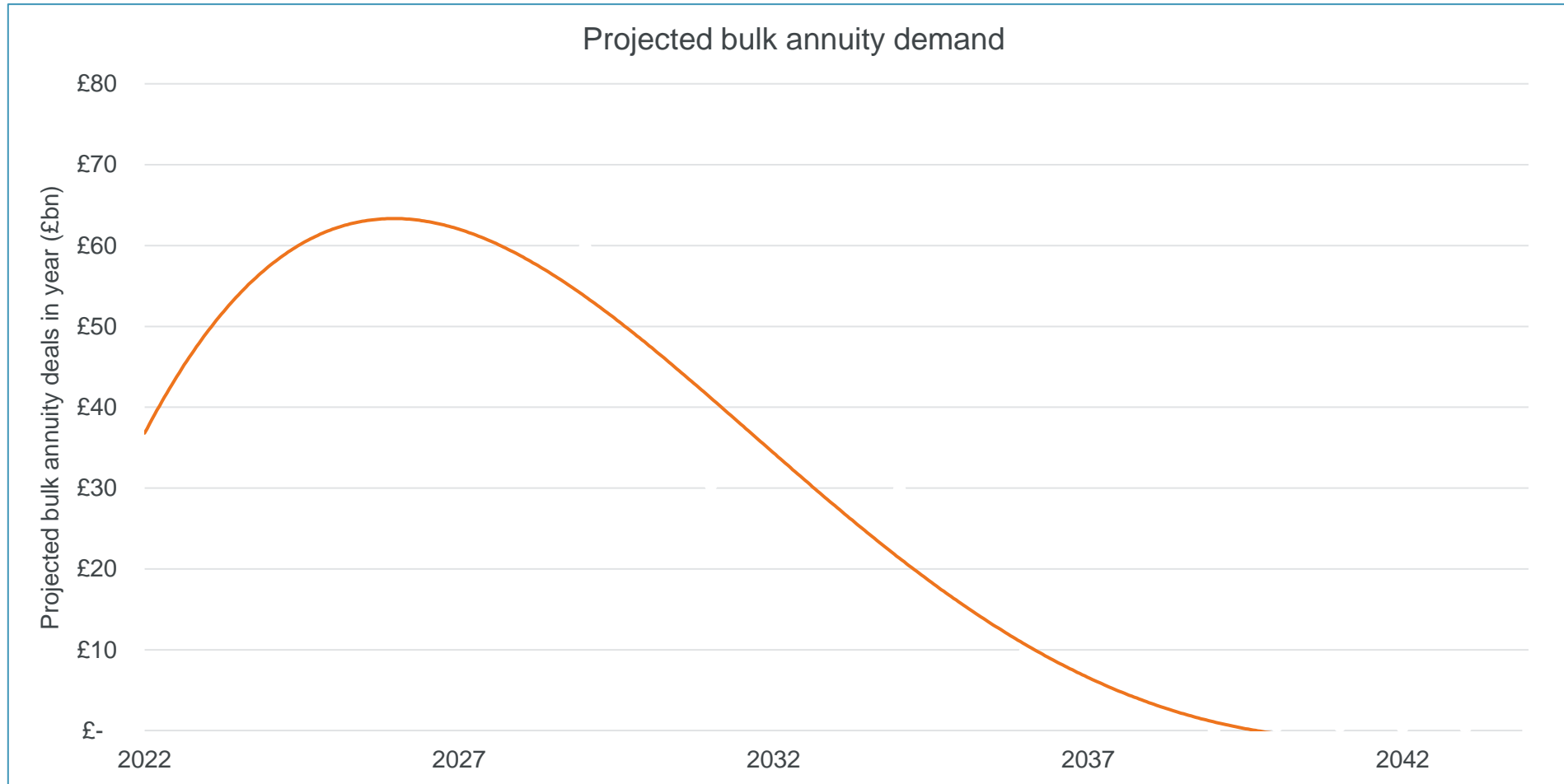


Context: players in the (direct) UK BPA market

	12 months to 31 December 2021			6 months to 30 June 2022		
	Total value of deals	Total number of deals	Average deal value	Total value of deals	Total number of deals	Average deal value
Aviva	£6.2bn	45	£0.14bn	£1.9bn	18	£0.11bn
Canada Life	£1.0bn	5	£0.20bn	£0.3bn	4	£0.08bn
Legal & General	£6.2bn	45	£0.12bn	£3.7bn	20	£0.19bn
PIC	£4.7bn	14	£0.34bn	£2.4bn	10	£0.24bn
Phoenix	£5.5bn	7	£0.78bn	£1.6bn	6	£0.27bn
Just	£1.9bn	29	£0.07bn	£0.6bn	14	£0.09bn
Rothesay	£3.0bn	10	£0.30bn	£1.0bn	4	£0.25bn
Scottish Widows	£0.08bn	1	£0.08bn	£0.4bn	2	£0.2bn
Totals	£28.6bn	156	£0.18bn	£12.0bn	78	£0.15bn



Context: size of the opportunity...



Context: types of market participants

Insurers

- Insuring pension scheme liabilities via buy-in or buy-out
- Typically have access to illiquid assets
- Currently, all have internal models and matching adjustments

Reinsurers

- Two types:
 - Longevity only reinsurers
 - Asset and longevity reinsurers
- Some are based offshore – can take on same risk at lower cost
- May also have access to illiquid assets and be PE backed

Other

- Superfunds (e.g. Clara)
- Capital Backed Journey Plans



Why do it?



If it is a good fit for the existing business model / risk appetite



Some of the best (albeit slightly reducing) returns on capital in insurance industry



To better leverage asset sourcing capabilities



Insurance is a good diversifier for non-insurance investors



Will generate cash and capital for a long period



What do you need in order to deliver?

New business / target market

Identifying new BPA opportunities

Experienced deal team

Brand

Own pension scheme?

Investment strategy

ERMs

Other Illiquid assets

Matching assets

Asset management services

Pricing and underwriting

Competitive terms

Efficient and accurate quotation process

Robust and credible data sources

Pricing model

Risk & capital management

Matching Adjustment approval

(Partial) Internal Model

Access to capital

Reinsurance strategy

Operational

Capital efficient group structure

Systems

Policy administration

Reporting and monitoring



What are pensions schemes looking for?

Competitive pricing

Security

Member experience

Price-lock

Contractual terms

ESG credentials

Track record

Brand



What do insurers / a new insurer need?

Internal Model

Ability to warehouse

A first deal...

Matching Adjustment

Access to capital

Reinsurance contacts /
strategy

Access to illiquid
assets

Existing admin / ability
to upscale

A licence...



Which route to go?

Insurer

Brand	Illiquid asset origination
In-house or outsourced quote / pricing process	Policy administration
Matching Adjustment approval	(Partial) Internal Model
Access to capital	Reinsurance strategy
Licence	Functions / governance

Reinsurer

Brand	Illiquid asset origination
In-house or outsourced quote / pricing process	Policy administration
Matching Adjustment approval	(Partial) Internal Model
Access to capital	Reinsurance strategy
Licence	Functions / governance

Investor

Brand	Illiquid asset origination
In-house or outsourced quote / pricing process	Policy administration
Matching Adjustment approval	(Partial) Internal Model
Access to capital	Reinsurance strategy
Licence	Functions / governance



So...why limited new entrants?

Issues

- A lot of capital is needed
- Regulatory approvals are *very* time consuming
- The first deal is not guaranteed
- Recent (direct writer) attempts have fallen over for various reasons
- Already eight players

Mitigants

- Phased reinsurance
- Solvency II reform.....?
- Own pension scheme
- Sheer volume of deals *might* necessitate new entrants
- Pricing within a niche



Conclusion

- ✓ There is a huge potential market to be tapped into
- ✗ The current barriers to entry are high
- ✗ Investment is high and deals are not guaranteed
- ✗ There are a number of players in the market
- ✓ But there are multiple ways to enter the market
- ✓ Recent regulatory developments may open up new doors
- ✓ Recent economic events have brought forward pipeline



Questions

Comments

Expressions of individual views by members of the Institute and Faculty of Actuaries and its staff are encouraged.

The views expressed in this presentation are those of the presenter.



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Thank you

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