



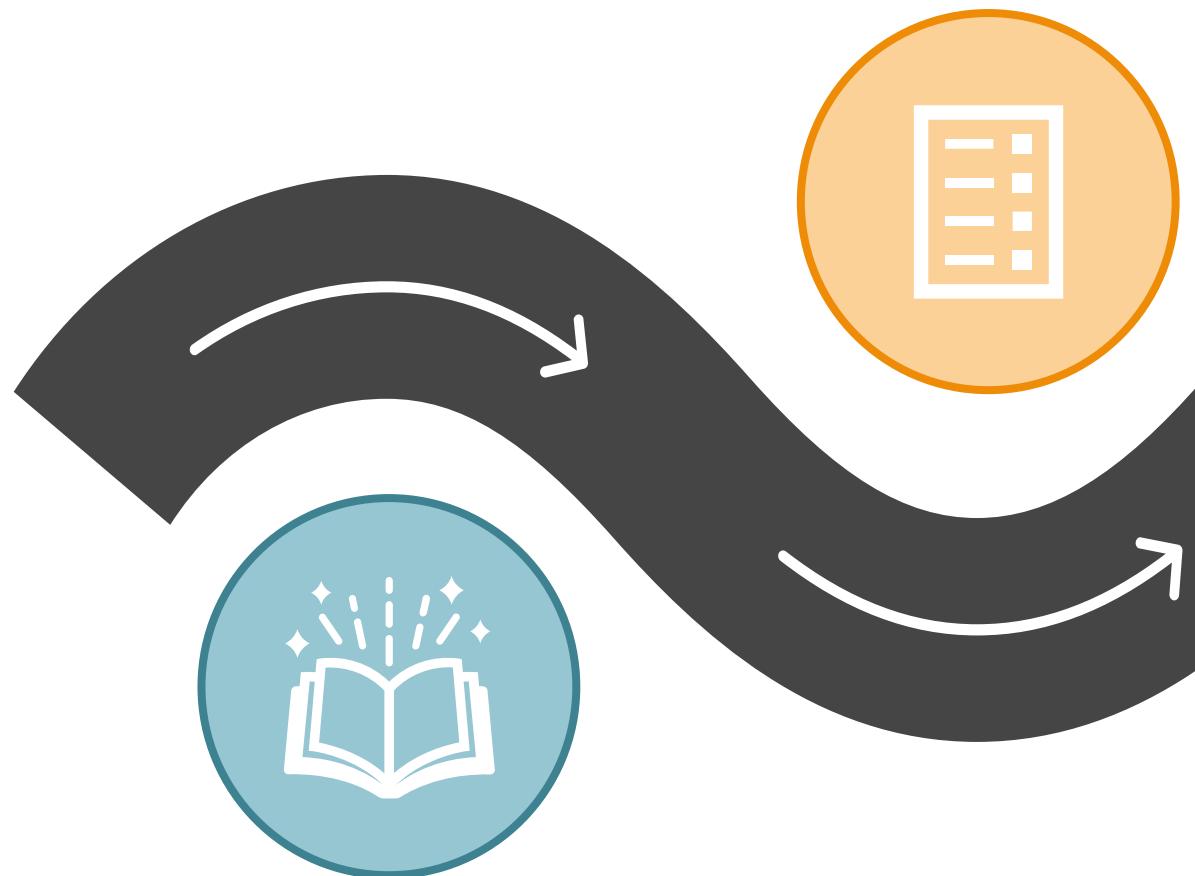
Institute
and Faculty
of Actuaries

IFoA Life Conference

More than a price: unlocking value
through additive features in BPA
transactions

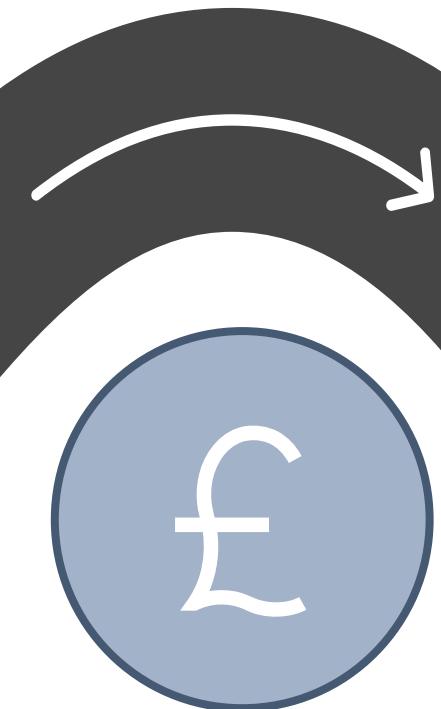
Agenda

Termination Rights



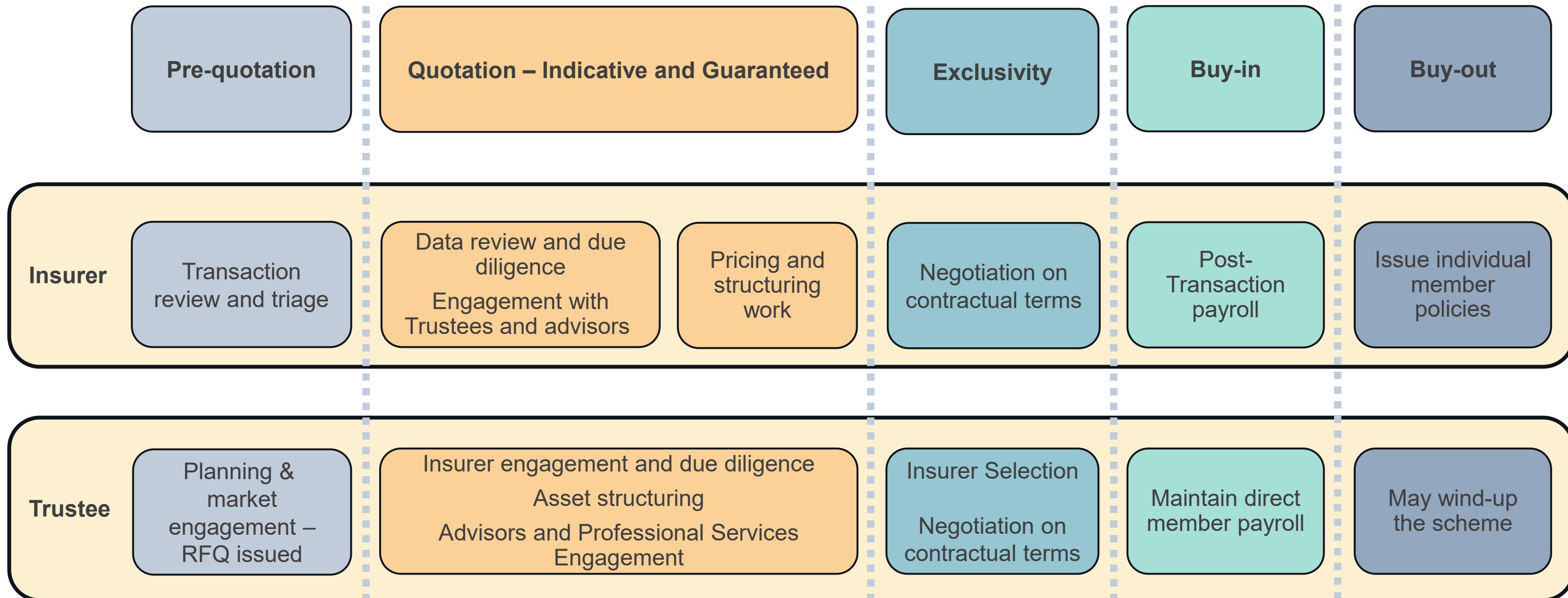
BPA Journey

Q&A



Price Locks

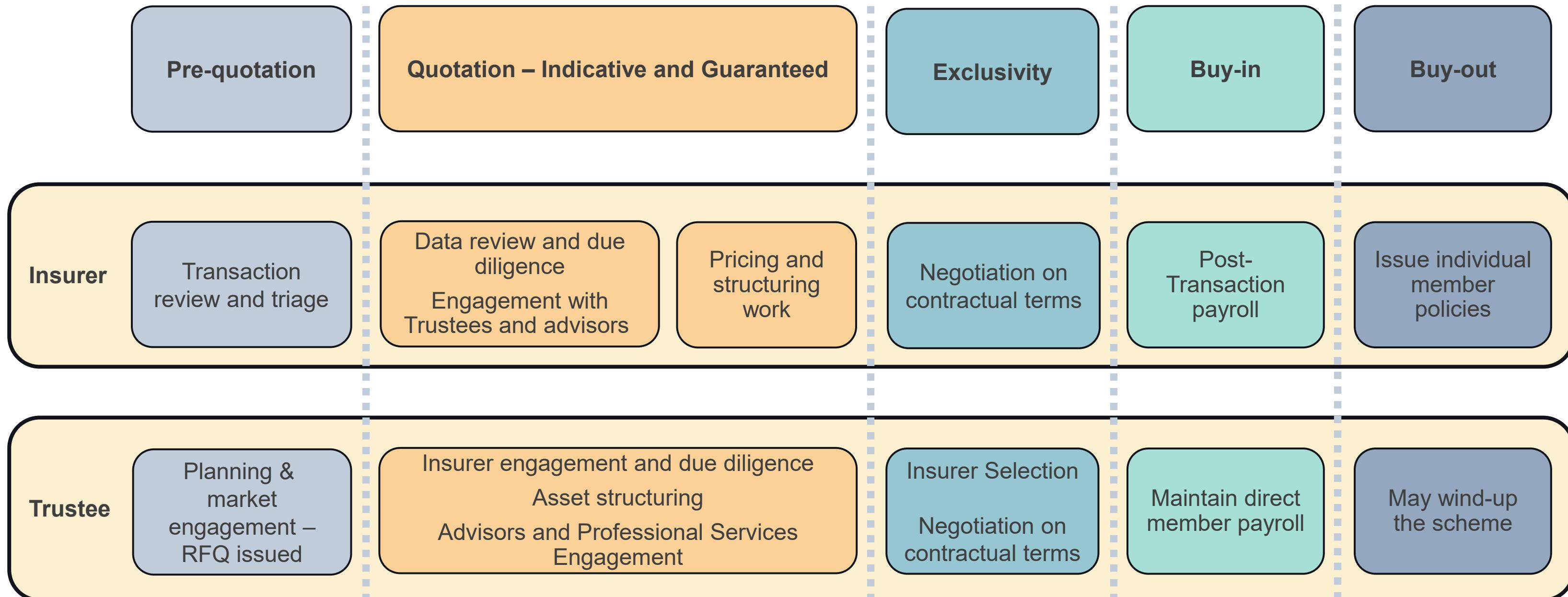
BPA Journey – Trustee & Insurer Perspectives



Termination Rights

More than a price: unlocking value through additive features in BPA transactions

Termination Rights - Definition



Termination Rights - Definition

Quotation – Indicative and Guaranteed

Termination Rights

“a time-limited contractual option that allows the Trustee to terminate the policy and receive a termination amount, if certain financial or operational triggers occur as defined under the policy.”

Insurer

Data review and due diligence
Engagement with Trustees and advisors

Pricing and structuring work

Trustee

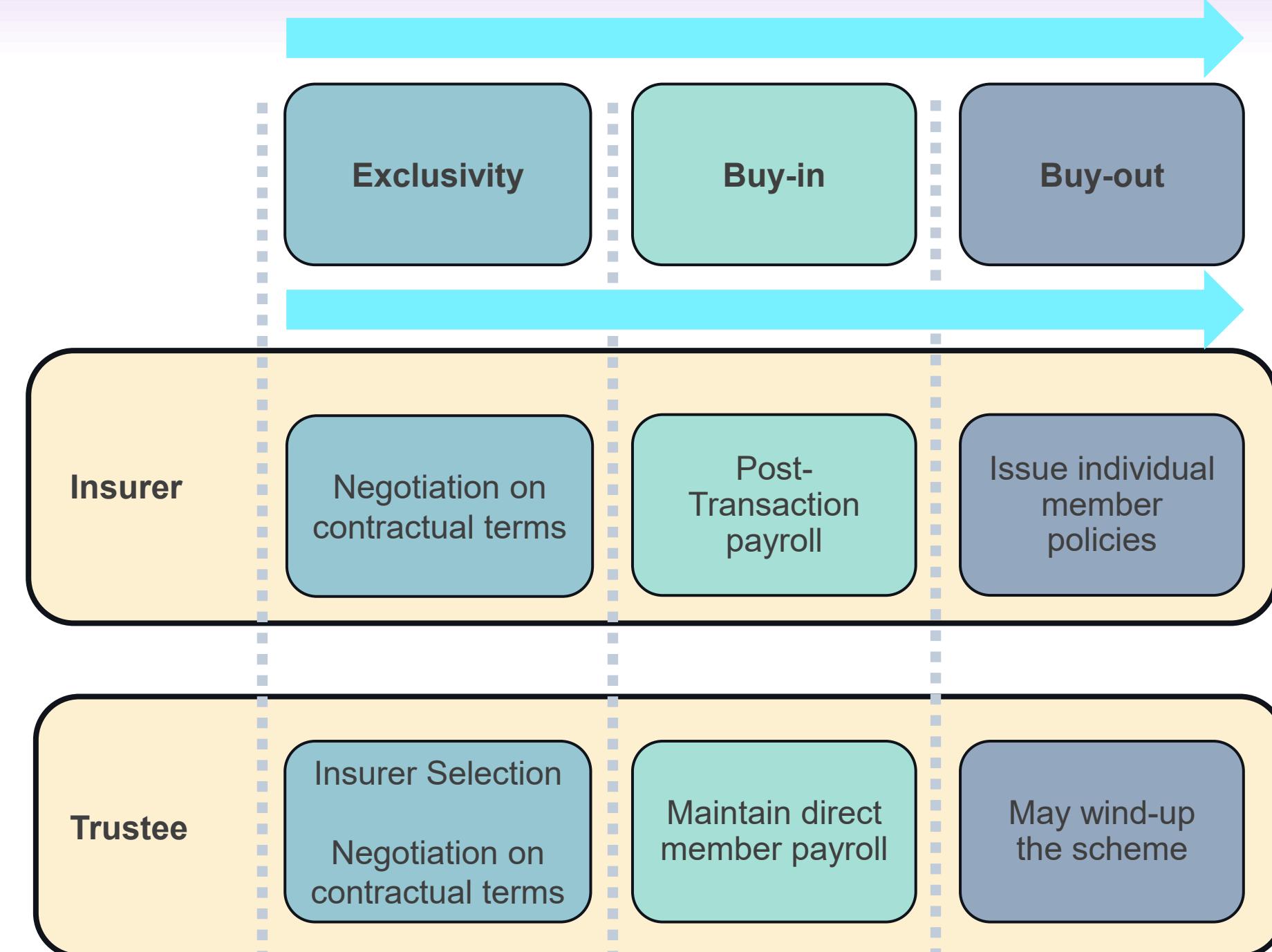
Insurer engagement and due diligence
Asset structuring
Advisors and Professional Services Engagement

Termination Rights – Effective Period

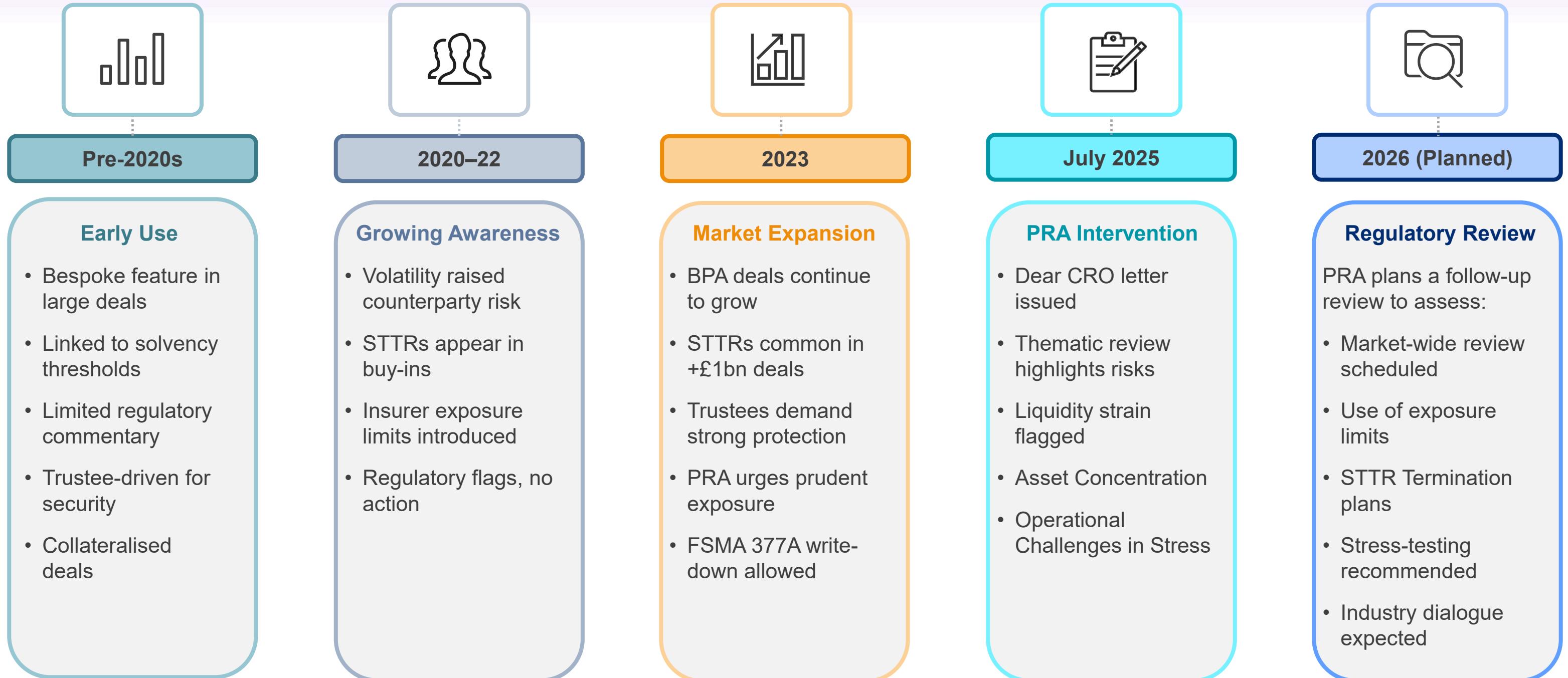
When are Termination Rights effective?

- Policy terms agreed during exclusivity phase
 - Effective from inception of contract until buy-out

“No Scheme has ever exercised the option to terminate its policy.”



Termination Rights - Timeline

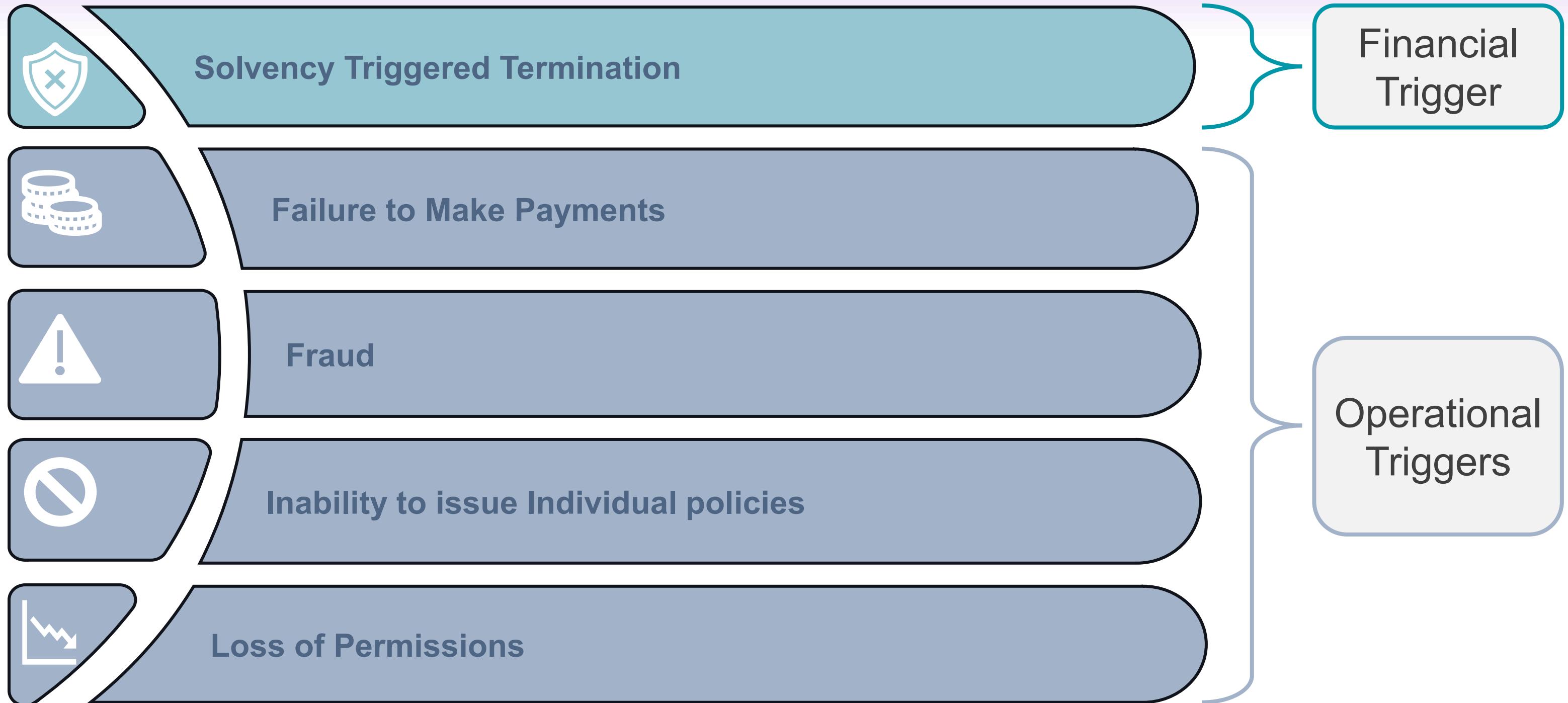


Termination Rights - Triggers

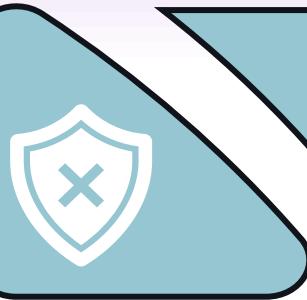
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Termination Rights - Triggers



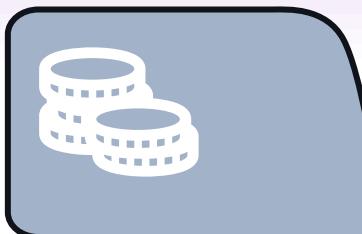
Termination Rights – Financial Triggers



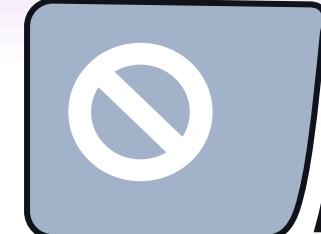
Solvency Triggered Termination (STTR)

- **Set Exposure Limits:** Cap aggregate exposure to STTRs across portfolio to avoid systemic risk.
- **Define Cure Periods:** Allow time for insurer to restore solvency before termination right activates.
- **Flexible Asset Transfer Terms:** Agree on asset mix for termination payment to prevent liquidity strain.
- **Liquidity Planning & Stress Testing:** Model worst-case termination scenarios and maintain contingency liquidity buffers.
- **Contractual Clarity:** Remove ambiguity on valuation methods and asset composition to avoid disputes.

Termination Rights – Operational Triggers



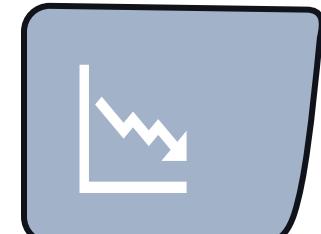
Failure to Make Payments



Loss of Permissions



Fraud



Inability to issue individual policies

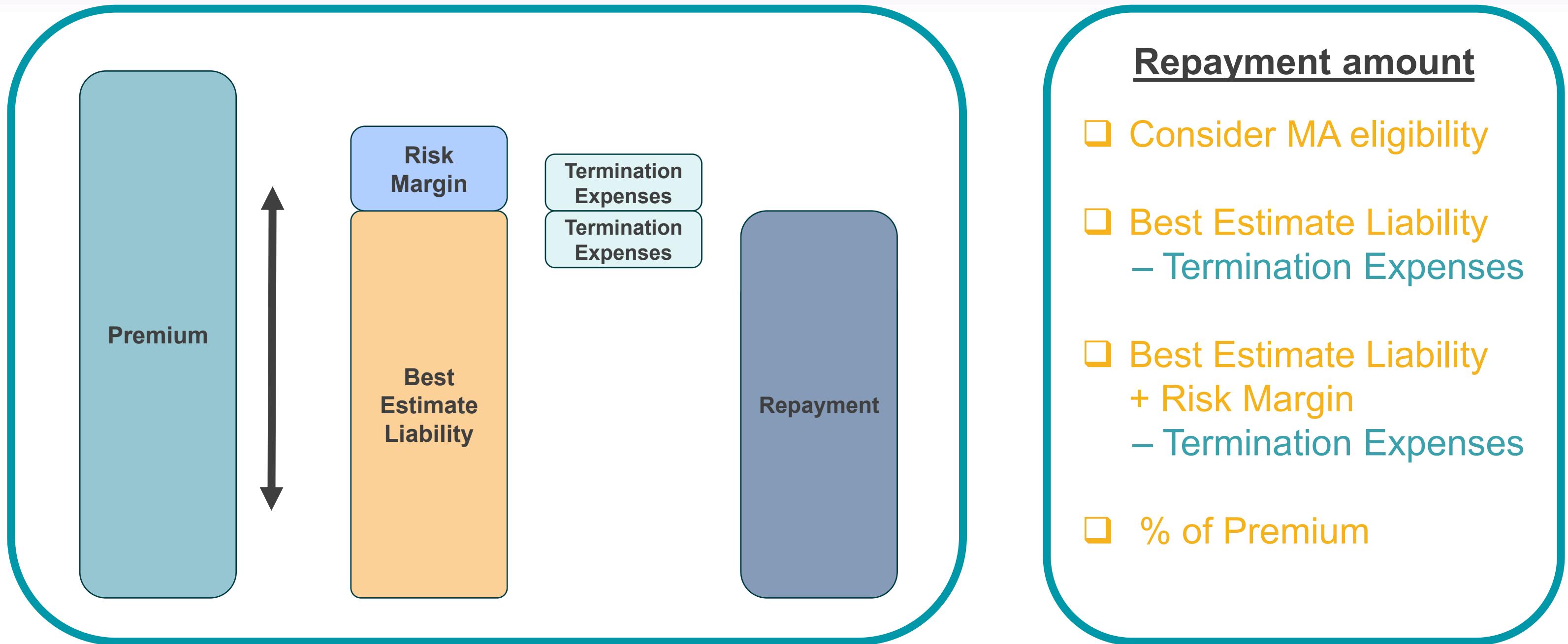
- **Controls:** Strong risk management principles - early detection and response.
- **Project Management:** Coordinate project control ensuring data and process readiness for member to policyholder conversion.
- **Due Diligence:** Perform regular audits and compliance reviews to detect operational weaknesses early.
- **Cure Periods:** Allow time to fix issues promptly as they occur.
- **Contractual Clarity:** Define triggers and rights precisely.

Termination Rights – Termination Amount

Termination Rights

*“a time-limited contractual option that allows the Trustee to terminate the policy and receive a **termination amount**, if certain financial or operational triggers occur as defined under the policy.”*

Termination Rights – Termination Amount



Termination Rights – Assets Payable

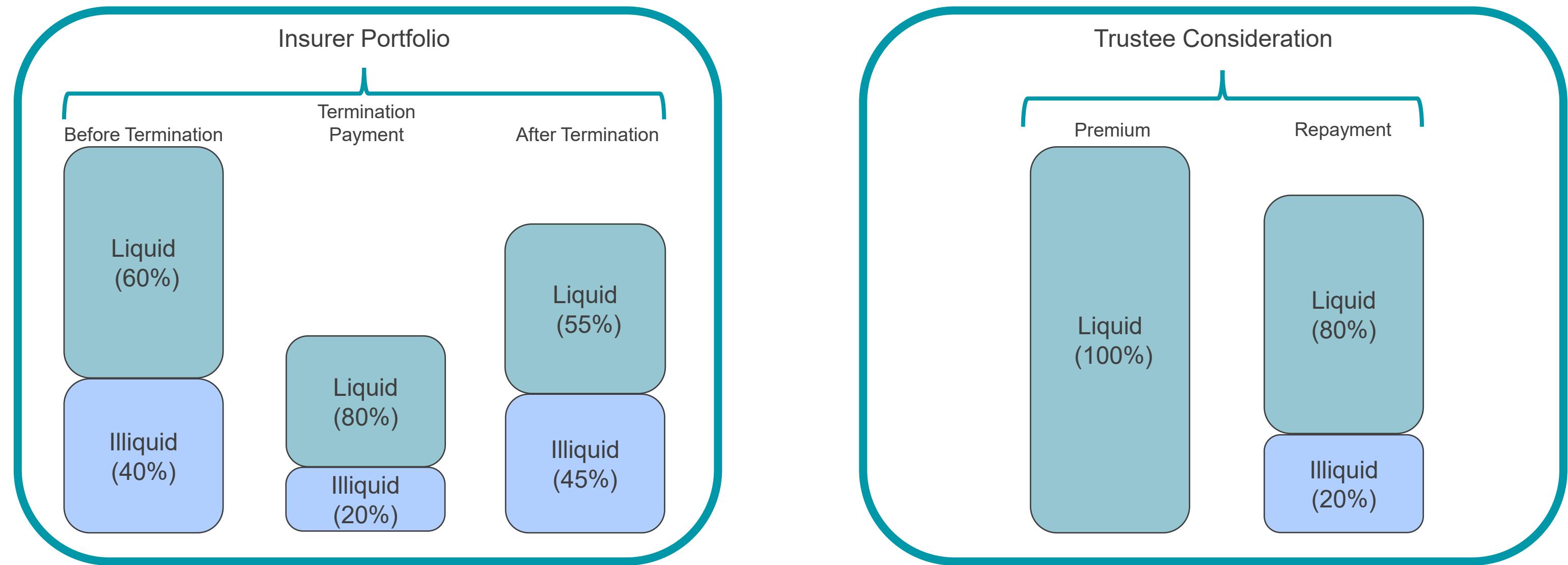
Termination Rights

*“a time-limited contractual option that allows the Trustee to terminate the policy and receive a **termination amount**, if certain financial or operational triggers occur as defined under the policy.”*

Termination Rights – Assets Payable

Considerations should be made on the impact to the residual insurer portfolio:

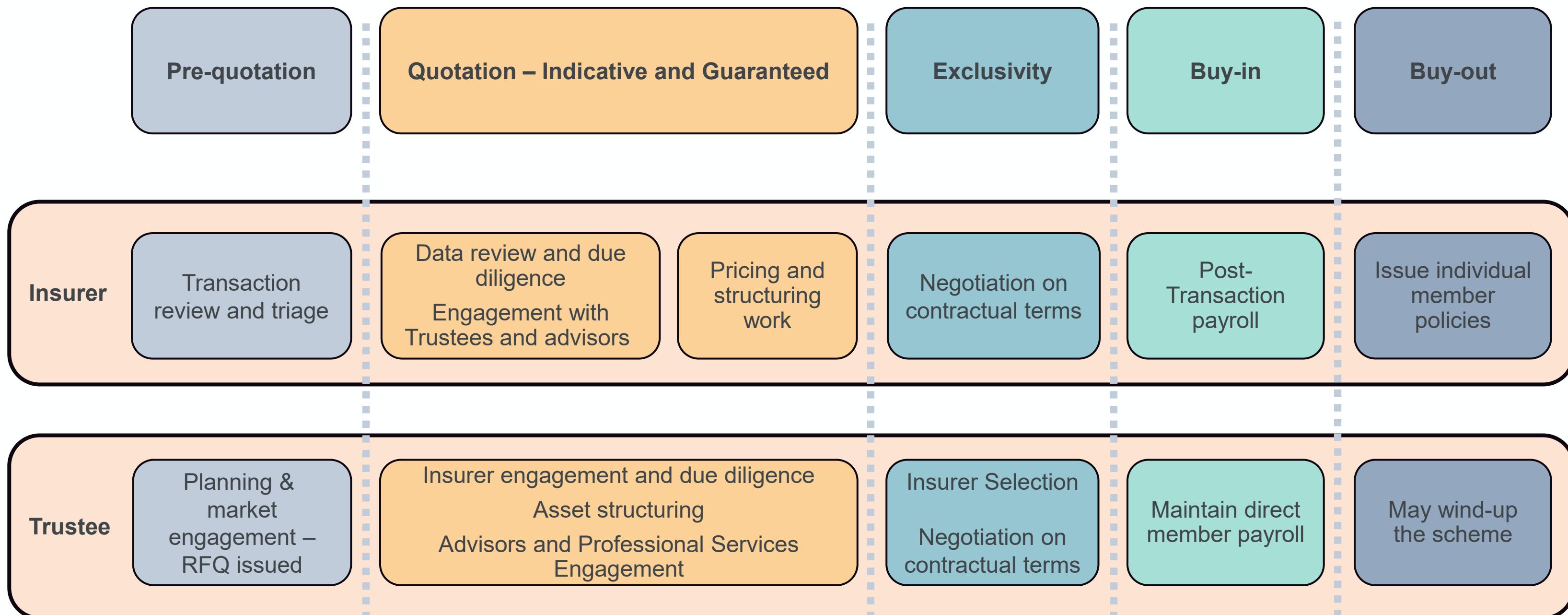
- Asset concentration
- Liquidity impact



Price Locks

More than a price: unlocking value through additive features in BPA transactions

Price Lock – Definition



Price Lock – Definition

Quotation – Indicative and Guaranteed

Price Locks

“An agreed mechanism for a bulk annuity premium to move in a defined way, reflecting market fluctuations. This provides trustees and insurers with cost predictability and minimises execution risk.”

Insurer

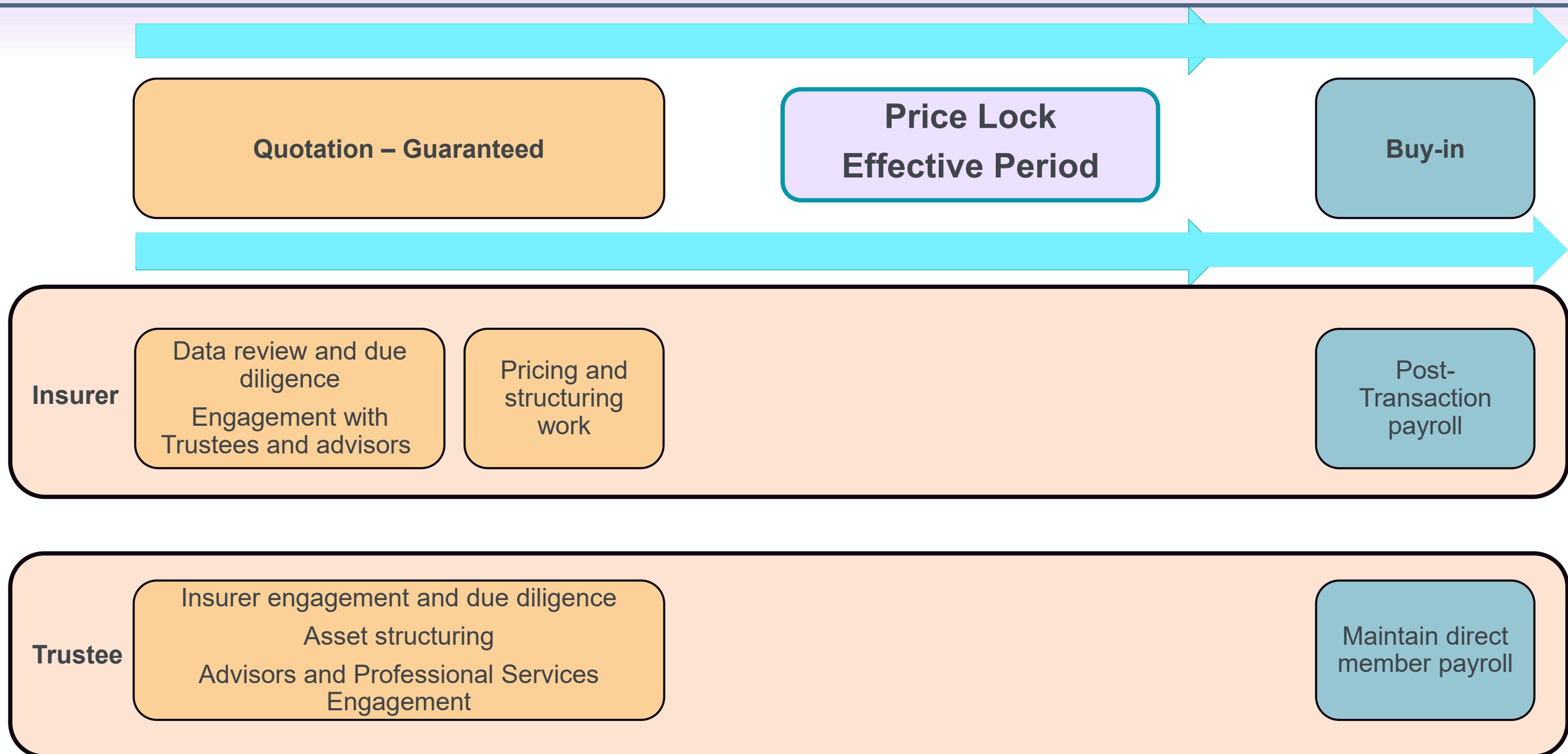
Data review and due diligence
Engagement with Trustees and advisors

Pricing and structuring work

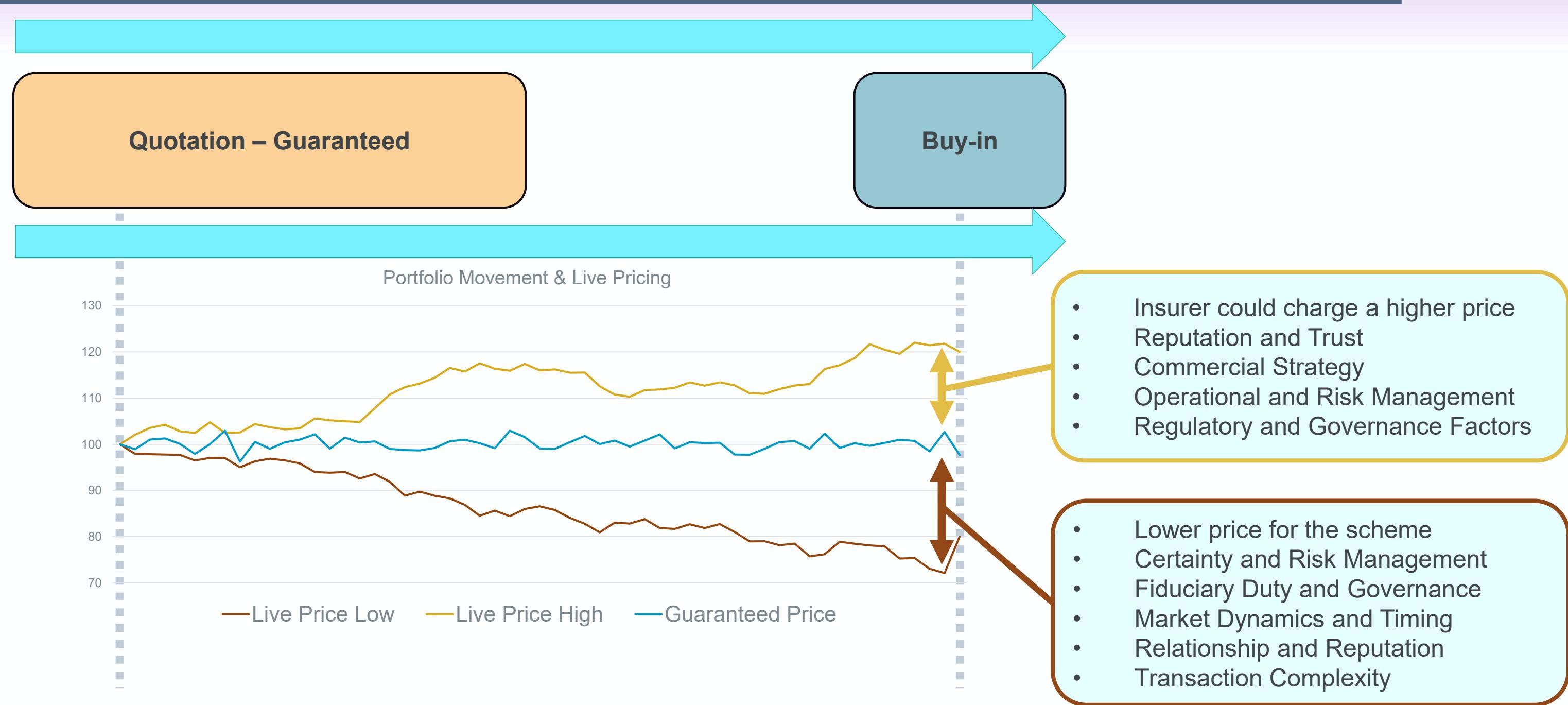
Trustee

Insurer engagement and due diligence
Asset structuring
Advisors and Professional Services Engagement

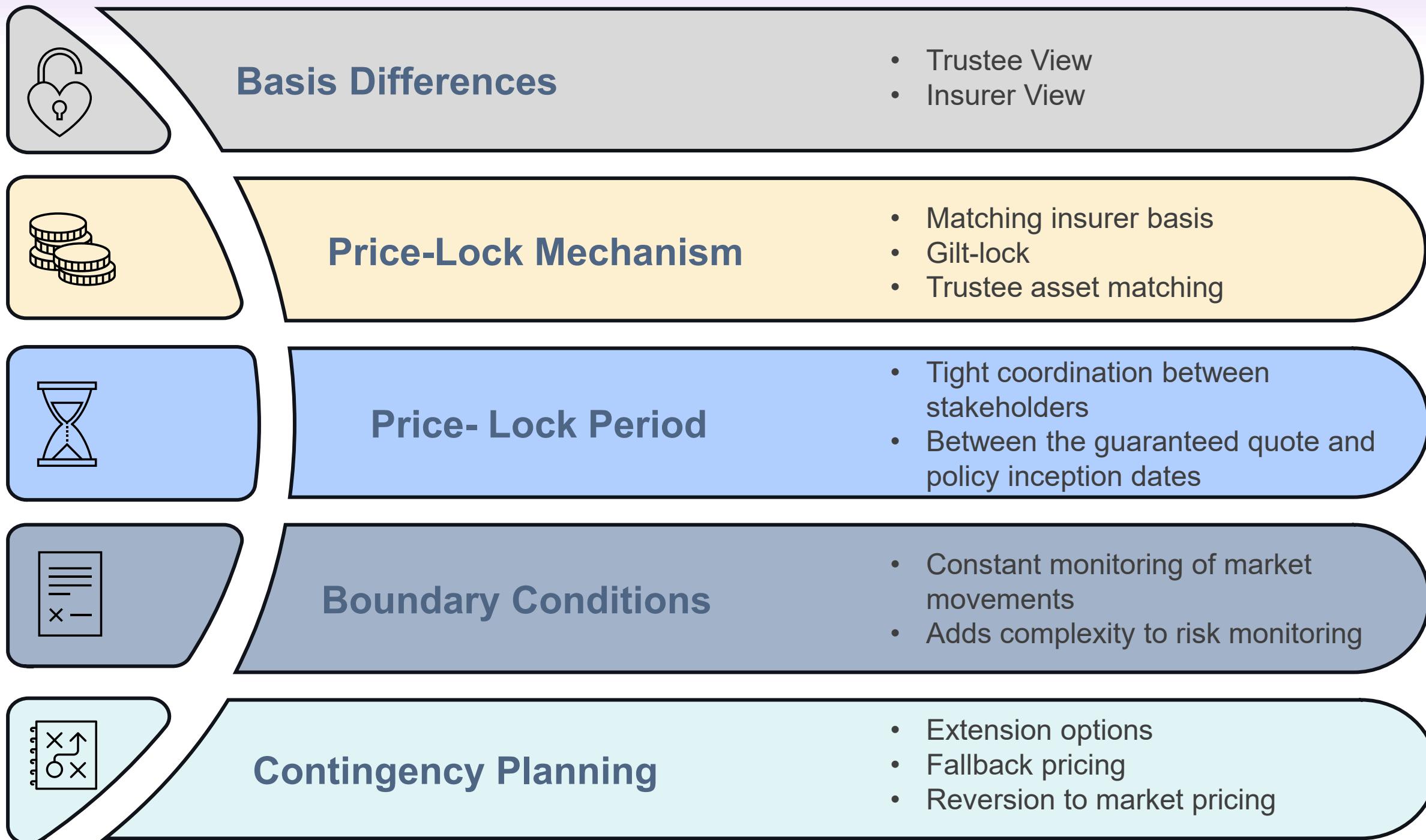
Price Lock – Effective Period



Price Lock – Effective Period



Price Locks – Negotiation Points



Price Lock - Example Portfolios

Portfolio 1: Insurer-basis

Pre-Defined Indices Aligned with Insurer Pricing Models

- Designed to mirror changes in the insurer's pricing basis

Proxying Key Risk Sensitivities

- A combination of swap indices can be used to replicate PV01 and IE01 exposures.
- Credit indices or references to specific credit assets can serve as proxies for pricing CS01.

- Simple / standardised – easy to update and understand
- Aligned with insurer basis

- Difficult for the scheme to invest to match exactly
- Basis risk for the scheme could lead to a shortfall and add execution risk

PV01	IE01	CS01
------	------	------

100%	100%	100%
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Portfolio 2: Gilt-only lock

Investible Gilt Portfolio

- Provides a transparent and straightforward structure that trustees can easily understand and manage.

Liability-Aligned Design

- Tracks price changes and income for a gilt portfolio calibrated to match the PV01 and IE01 of scheme liabilities.
- Can start from existing pension scheme gilt holdings, ensuring familiarity and ease of transition.

- Trustee can transition to match the price lock with ease
- Simplifies payment by in-specie transfer
- Scope to compromise on PV01/IE01

- Insurer takes risk of large credit spread or gilt-swap spread movements
- May not eliminate market risk for trustee (at least initially)

PV01	IE01	CS01
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90%	90%	0%
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Price Lock - Example Portfolios

Portfolio 3: Trustee Asset-Matching

Asset-Matching Approach

- Designed to replicate the pension scheme portfolio as closely as possible, eliminating basis risk.

Broad Asset Coverage

- Primarily gilt-based but may include credit funds, leveraged LDI, and growth assets, requiring detailed line-by-line modelling.

Operational Complexities

- Involves FX hedging, amortisation, and sourcing daily market prices for less liquid assets, adding implementation challenges.

- Removes all market risk for the trustee

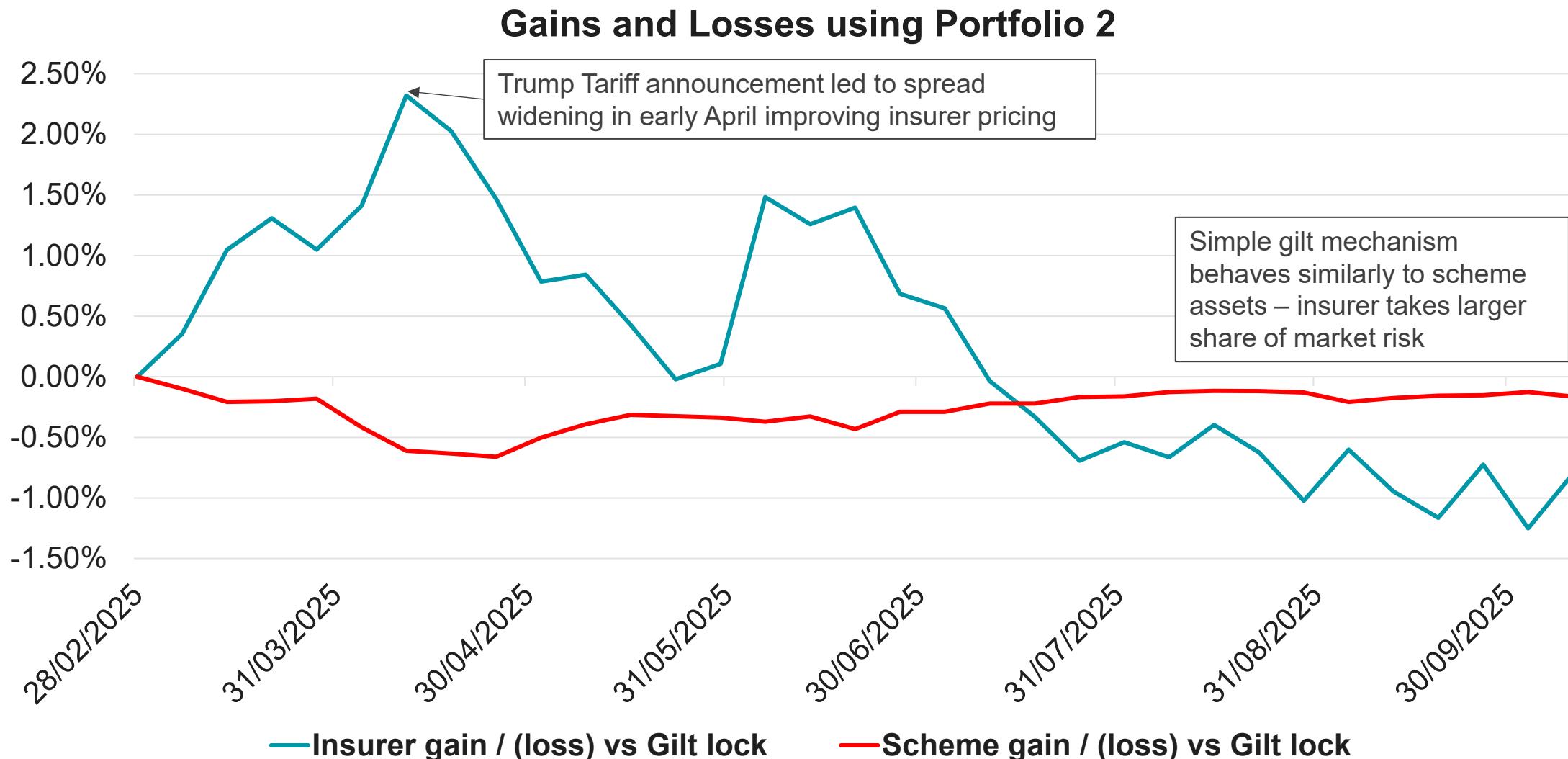
- Insurer takes all the market risk
- Insurer needs to model trustee portfolio – may be complex

Key considerations

- Market risk (and appetite)
- Duration of the lock (and key events)
- Complexity of modelling and monitoring
- Aggregate exposure vs individual transaction

PV01	IE01	CS01
80%	80%	10%

Price Lock - Case study



Portfolio 2: Trustee-Friendly

Investible Gilt Portfolio

- Provides a transparent and straightforward structure that trustees can easily understand and manage.

Liability-Aligned Design

- Tracks price changes and income for a gilt portfolio calibrated to match the PV01 and IE01 of scheme liabilities.

PV01

90%

IE01

90%

CS01

0%

Q&A

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Thank you

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