

Navigating a new pensions insurance market

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Market on track to hit a record volume of £45bn - £60bn for 2023

15 schemes of £1bn+ each may transact in 2023

Largest full buy-in transaction completes at £6.5bn (RSA)

British Steel becomes fully insured (largest scheme to do so at £7.5bn)

Adding a ninth insurer to the market (M&G)

Market is extremely busy so insurers are very selective..... but opportunities exist



The current buy-in and buy-out market



Things to explore

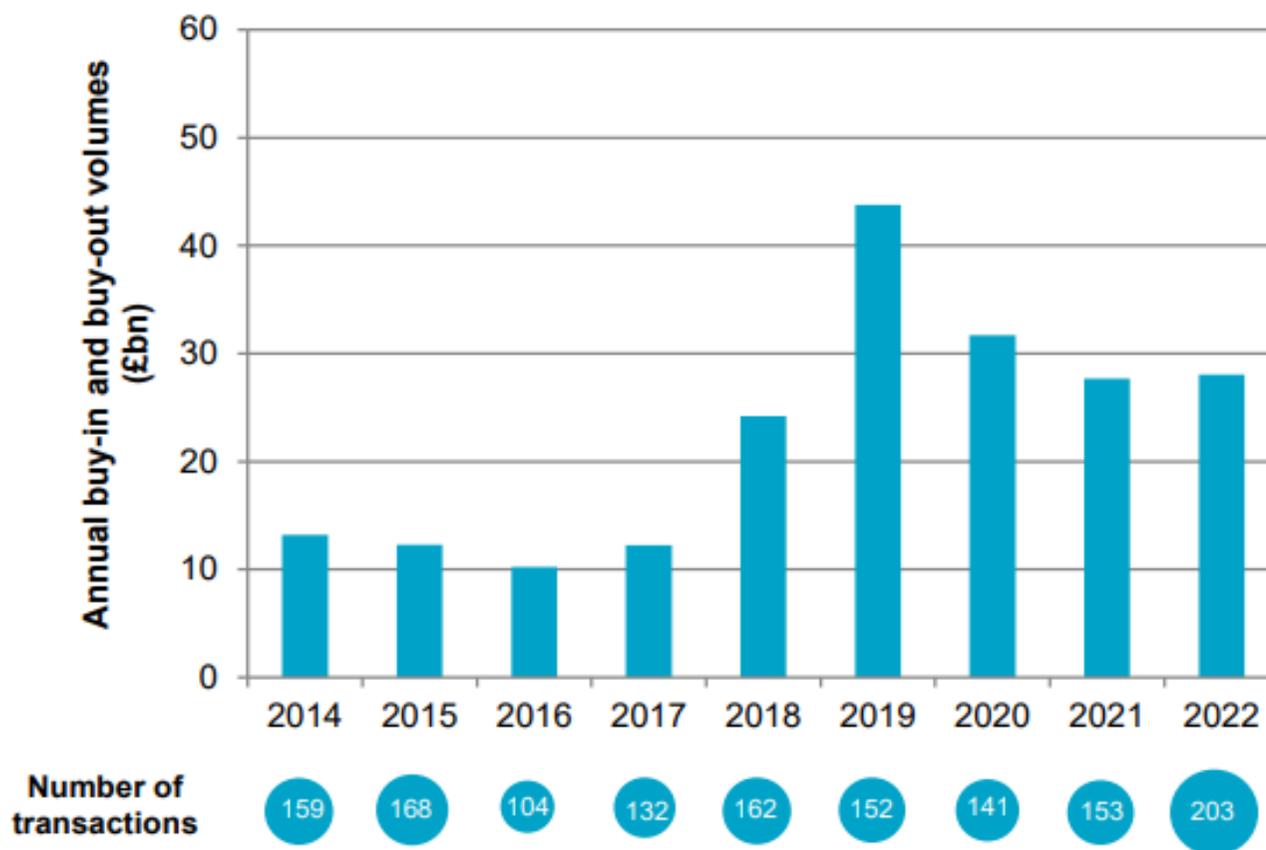
#1 Market demand and supply

#2 Is market pricing attractive?

#3 Illiquid assets challenge

#4 Is residual risks cover worth the cost?

Record breaking volumes expected for 2023

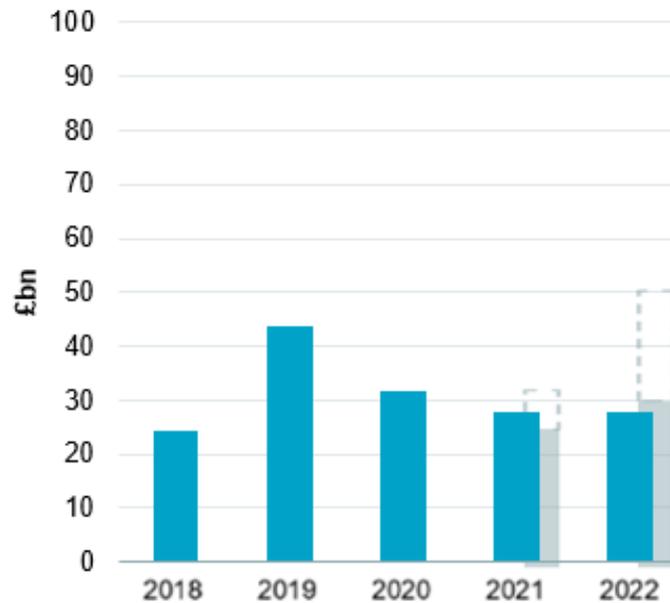


Source: Insurance company data

Improved funding levels are expected to accelerate demand

Dashed areas indicates potential range in demand

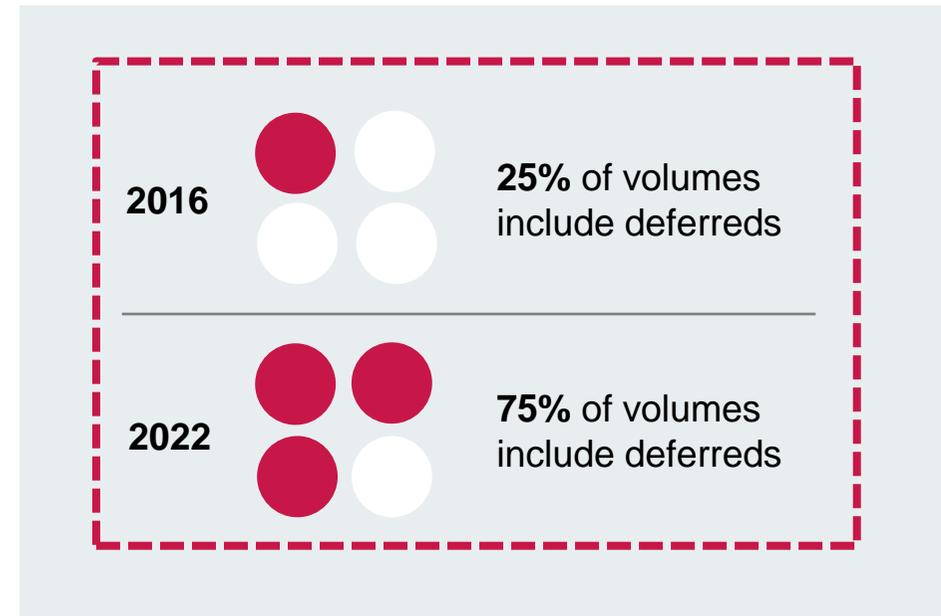
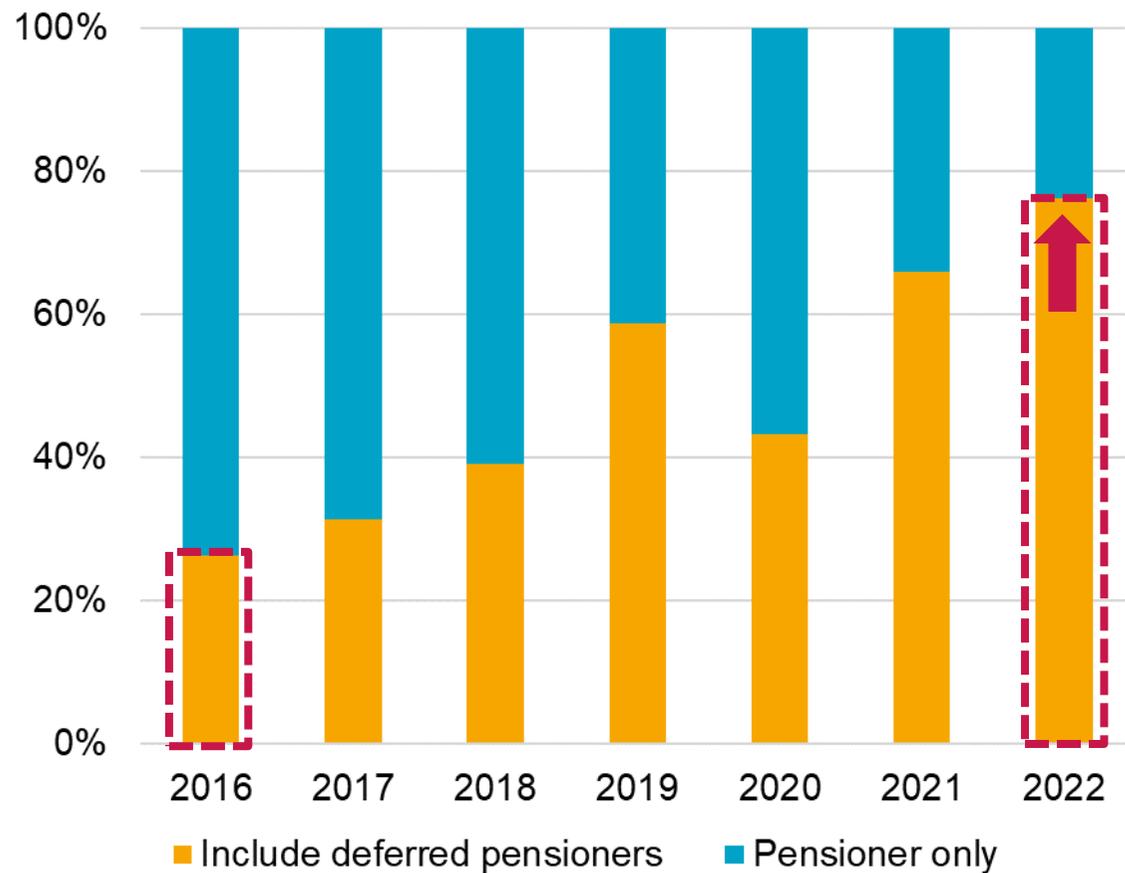
- Actual buy-in and buy-out volumes
- LCP projections (2022)
- LCP projections (2021)



Source: LCP analysis

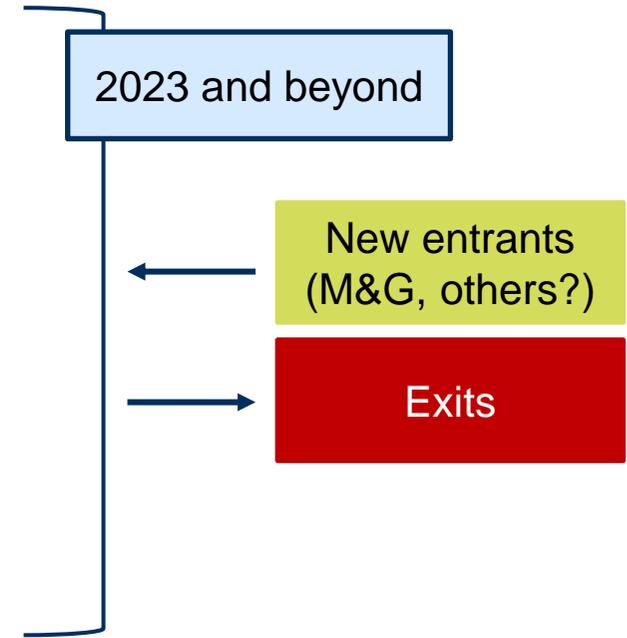
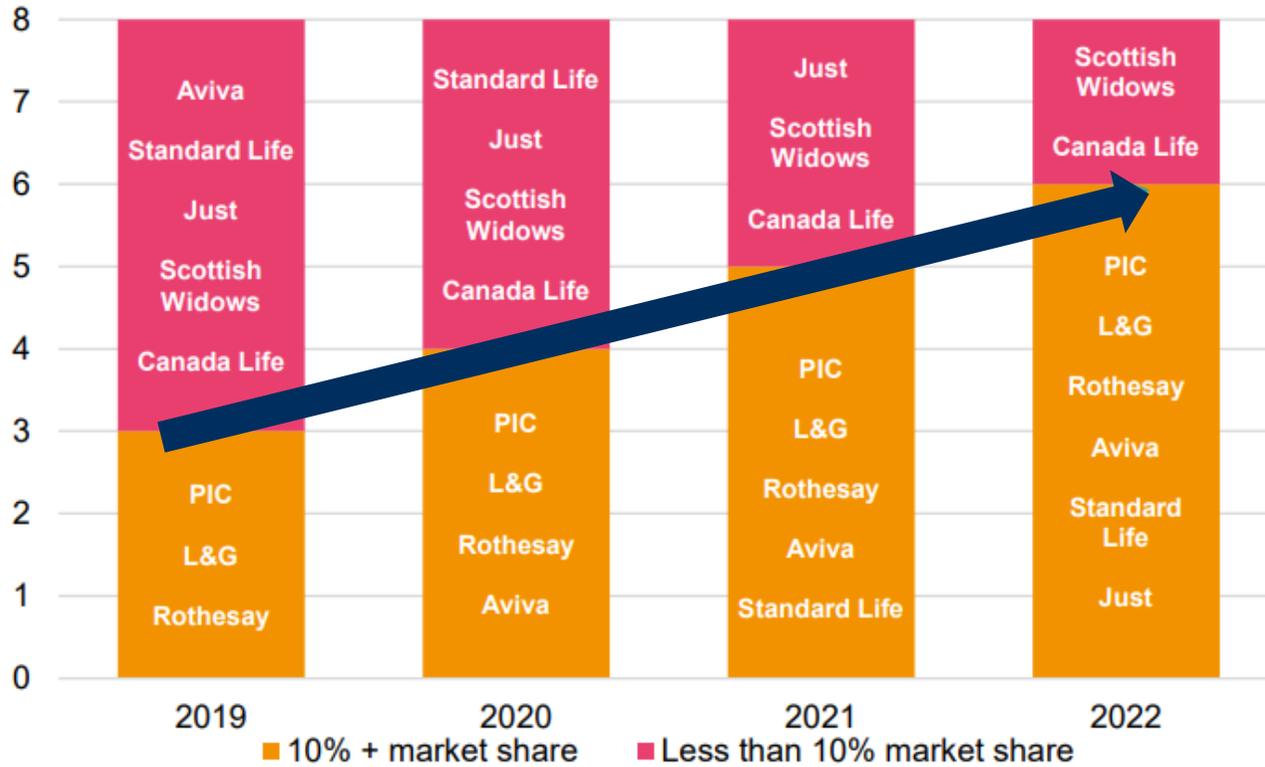
Pensioner only deals continue to take a back seat

Pensioner transactions as a proportion of total volumes

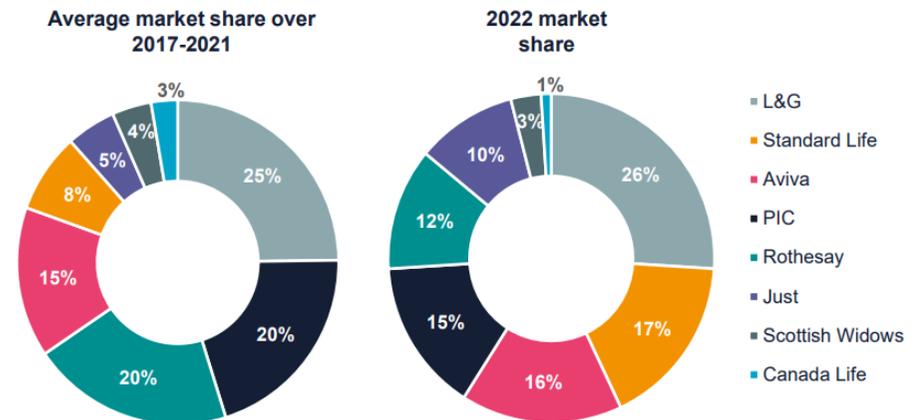


The supply side

Number of insurers with a 10%+ market share



Source: Insurance company data



Source: Insurance company data

Insurer pricing improved markedly over 2022 and remains attractive



Source: LCP insurer pricing model. The model is calibrated against live quotation and final transaction pricing. Buy-in pricing depends on a wide range of factors such as transaction size, benefit structure, membership profile and insurer appetite and can differ materially from that shown above.

The illiquids – a potential roadblock

FTSE 100 universe (2021 accounts)

Key statistics

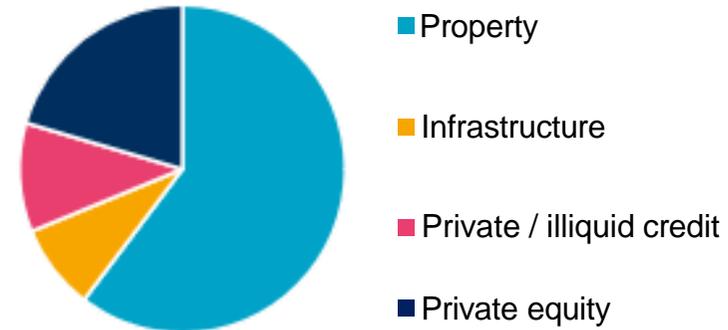
7% overall allocation to illiquid assets

67% of schemes have illiquid assets

43% have > 5% allocation to illiquids

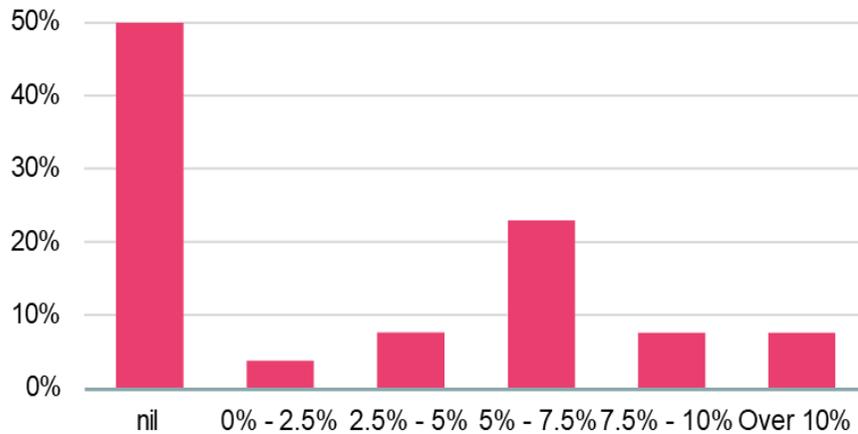
Minority have more than 20% allocation to illiquids

Distribution of illiquid asset classes

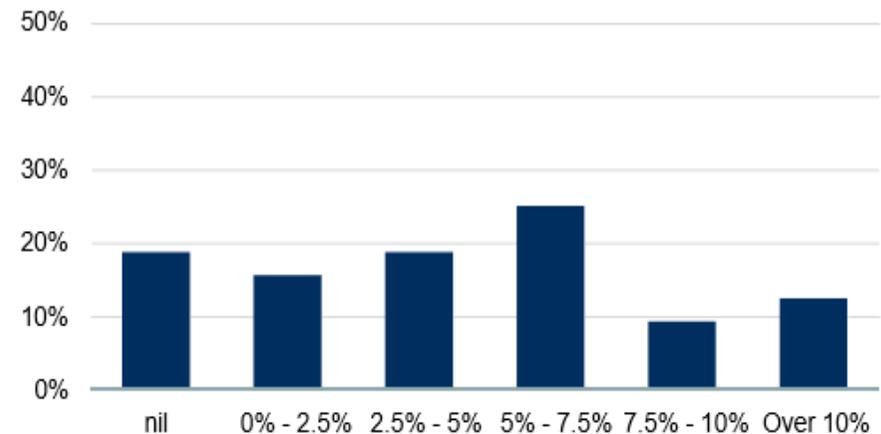


Distribution of allocation to illiquid assets

(schemes < £3bn)



(schemes > £3bn)



#3

Illiquid assets challenge

Asset exit strategies

Allow to run-off

Primary redemption

Secondary market sale

Transfer to sponsor

Transfer to a sister scheme

Pass to insurer

Liquidity options

Deferred premium (inc profit share)

Corporate loan

Third party financing

Strategic options

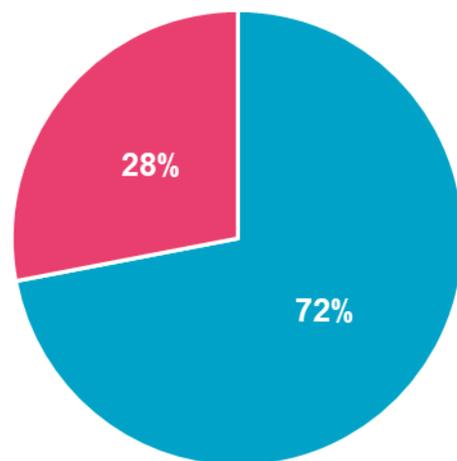
Company underwrite

Match against surplus / expenses

Delay / split transaction

Is residual risks cover worth pursuing?

Uptake of residual risks cover for full buy-ins over £250m since 2015



- Proportion that took RR cover
- Proportion that did not take RR cover

Source: LCP full buy-in transactions over £250m

Common reasons for taking up RR cover

- Sponsor desire for clean break
- Surplus assets on buy-out, which can be used to meet the additional premium
- No long-term sponsor to stand behind risks
- Improved member protection and experience.

Common reasons for not taking up RR cover

- Comfortable with the risks given the due diligence undertaken and other available protections
- Strong sponsor to stand behind risks post wind-up
- Not deemed good value-for-money.

Any questions?



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