Navigating a new pensions insurance market

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June 2023

2023 at a glance (so far)

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 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

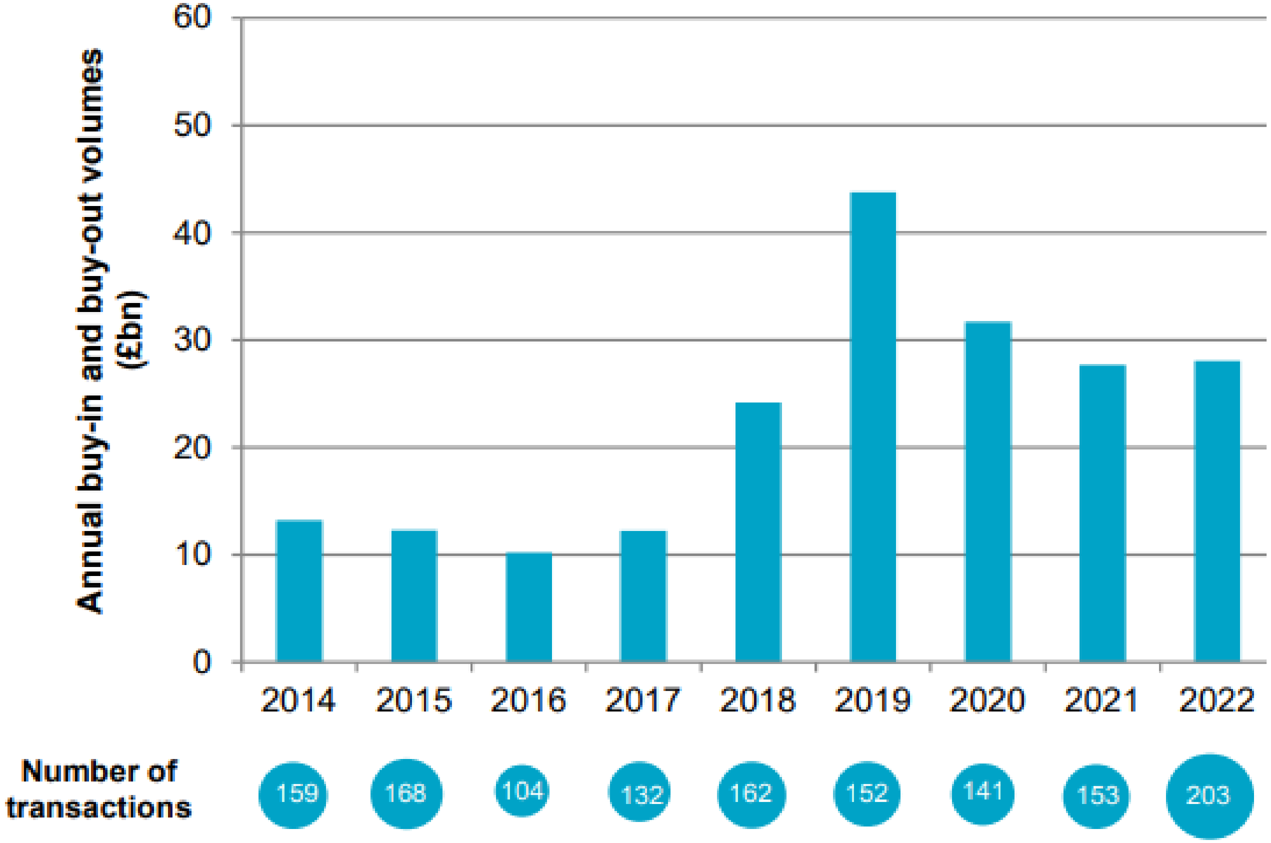
#1 Market demand and supply

#2 Is market pricing attractive?

#3 Illiquid assets challenge

#4 Is residual risks cover worth the cost?

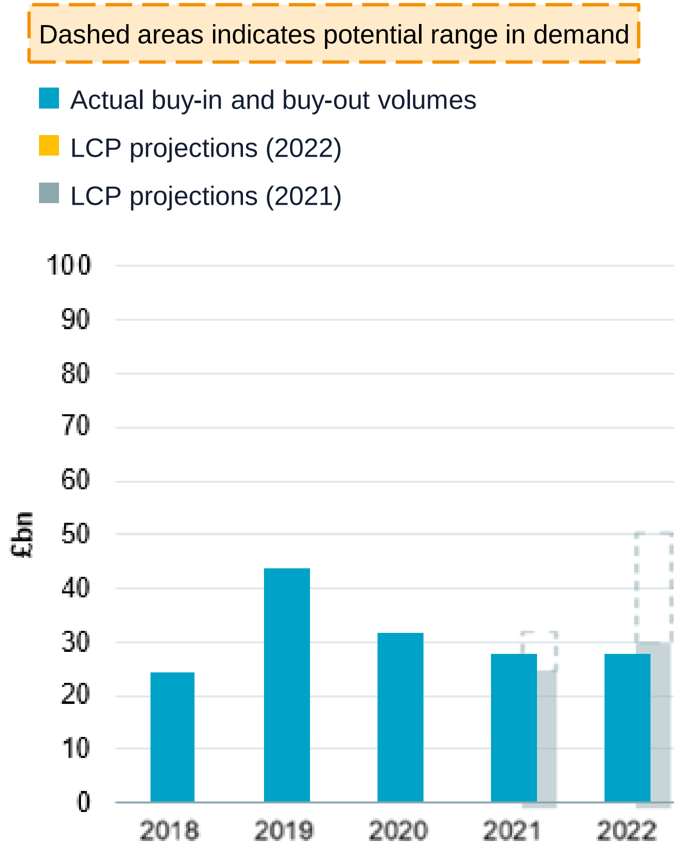
Record breaking volumes expected for 2023



Source: Insurance company data

#1 Market demand and supply

Improved funding levels are expected to accelerate demand

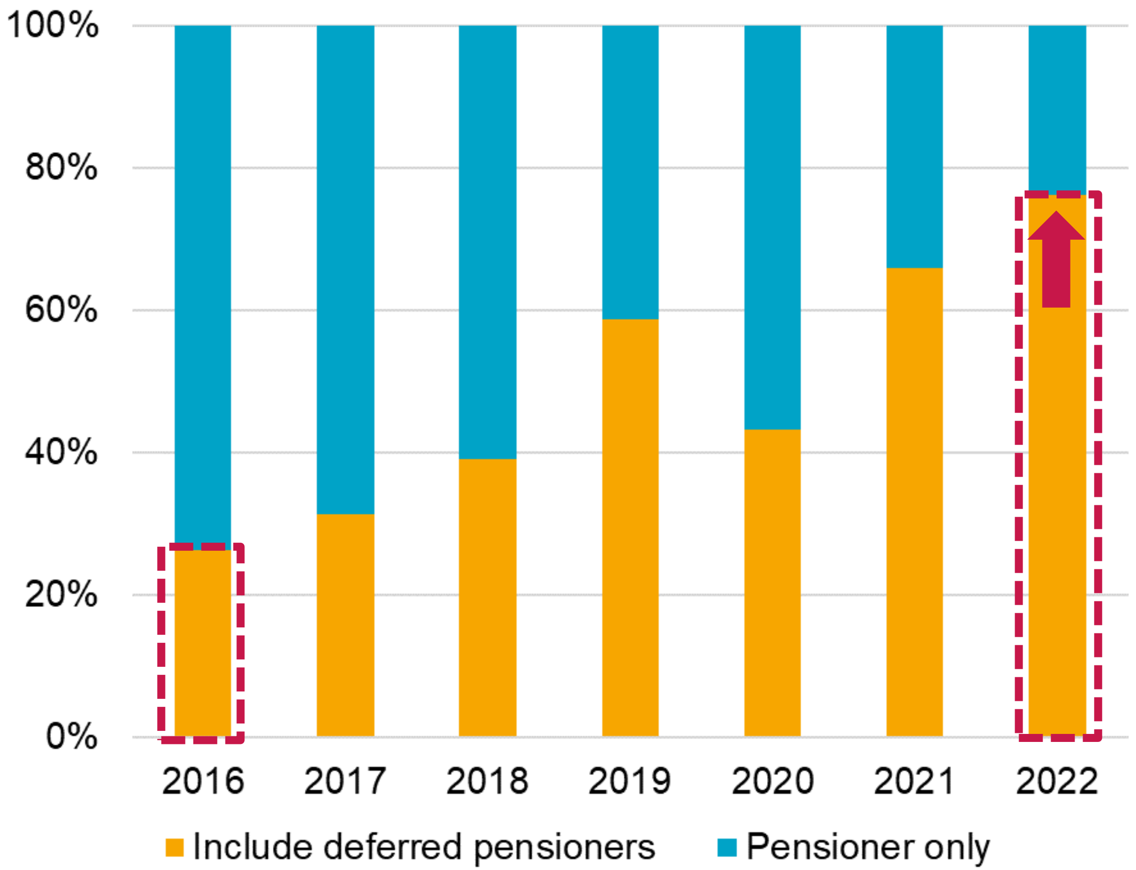


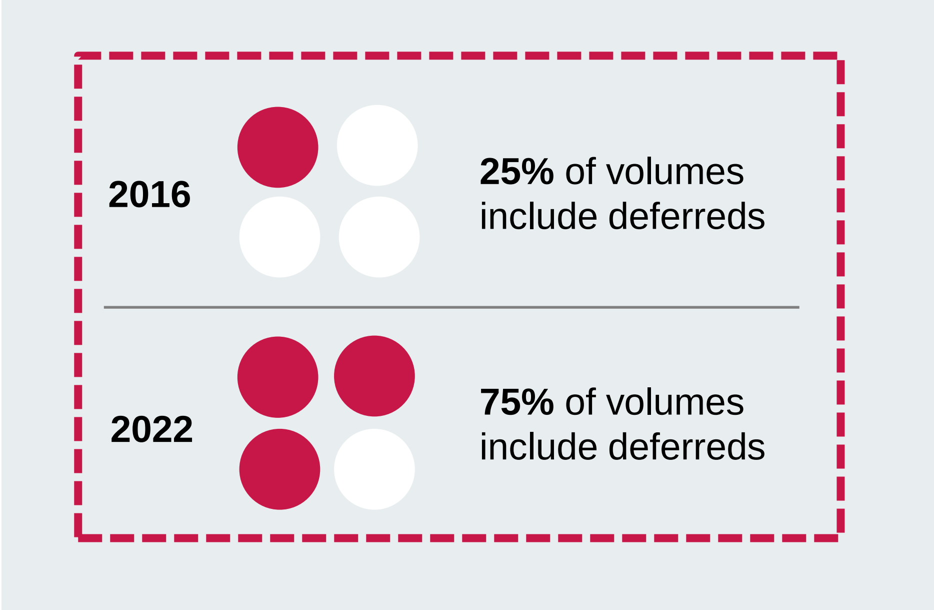
Source: LCP analysis

#1 Market demand and supply

Pensioner only deals continue to take a back seat

Pensioner transactions as a proportion of total volumes

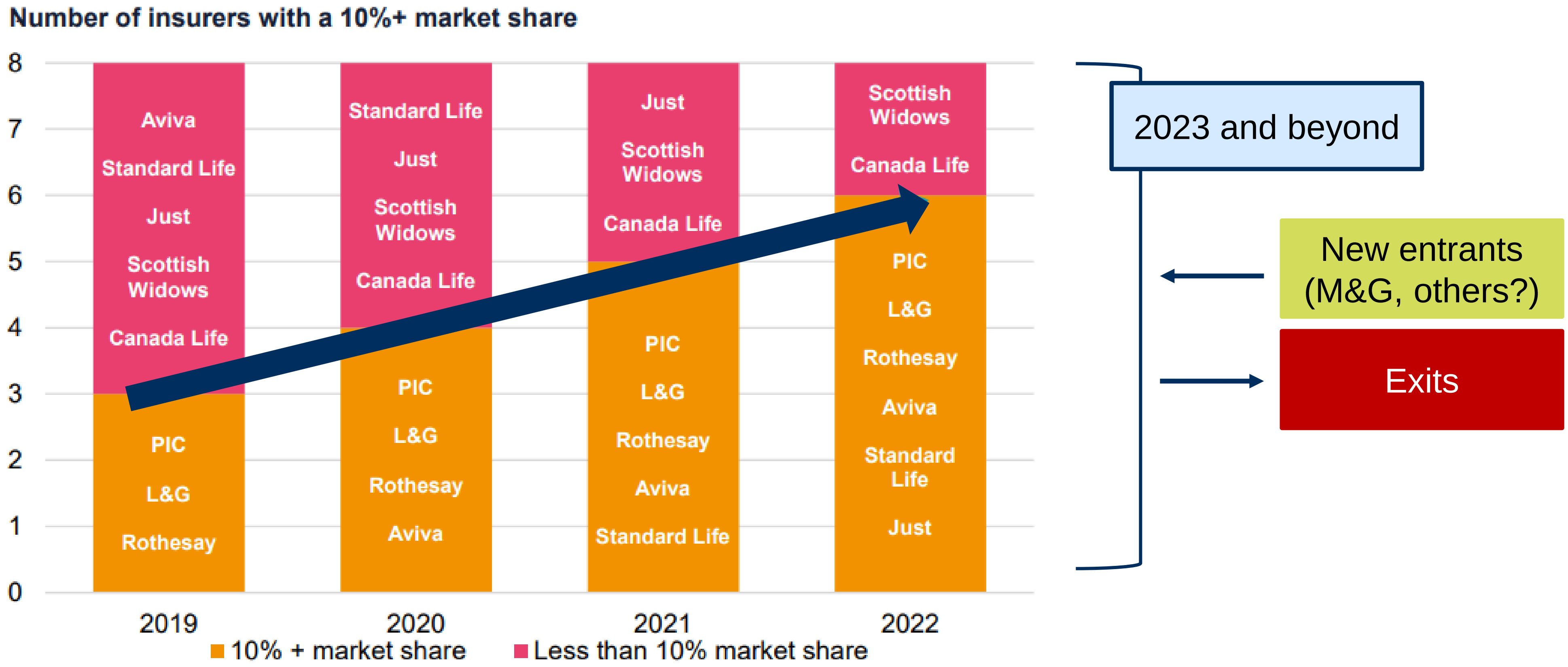




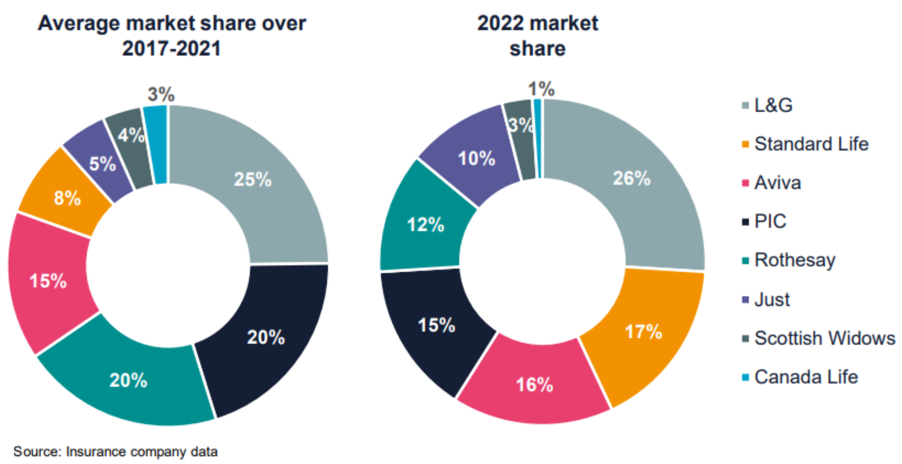
#1 Market demand and supply

Source: Based on insurer information to 31 December 2022

The supply side

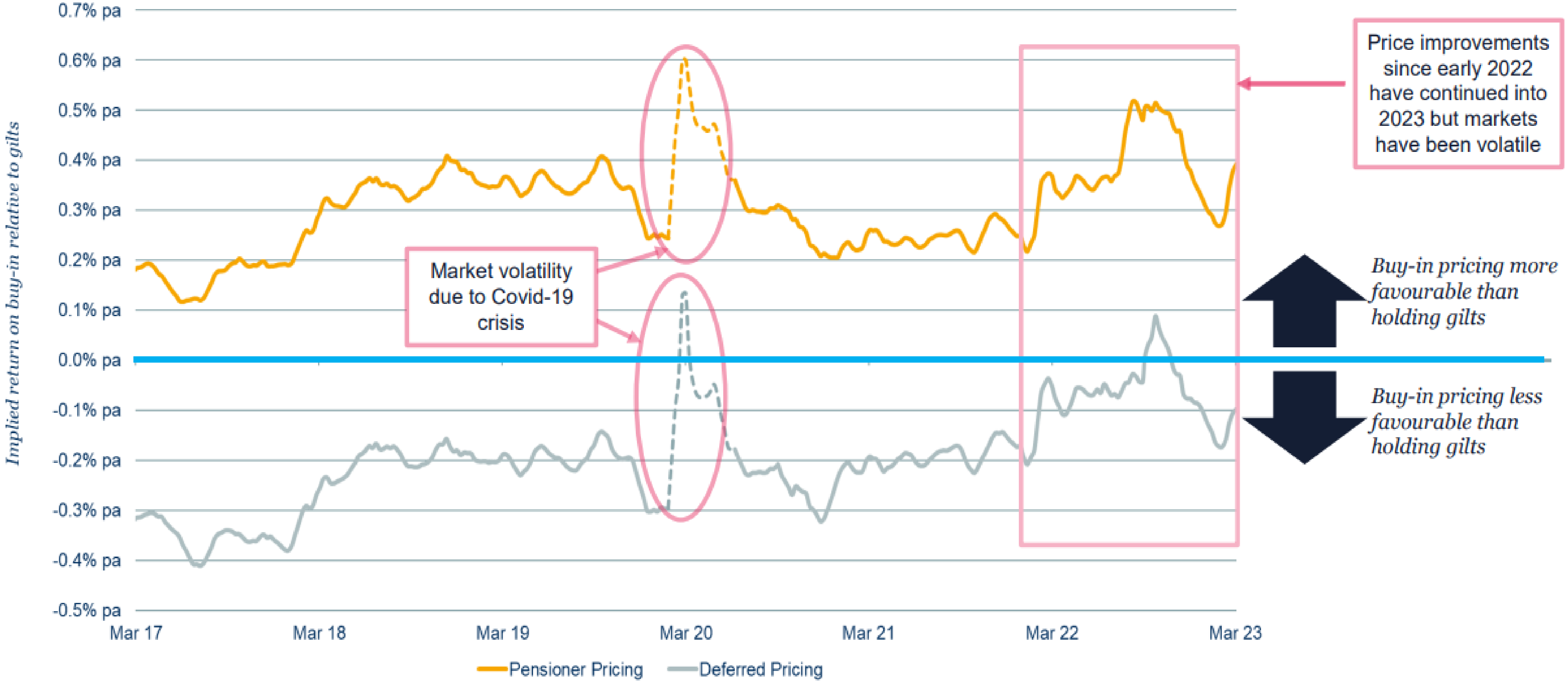


Source: Insurance company data



#1 Market demand and supply

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.

#2 Is market pricing attractive?

The illiquids – a potential roadblock

FTSE 100 universe (2021 accounts)

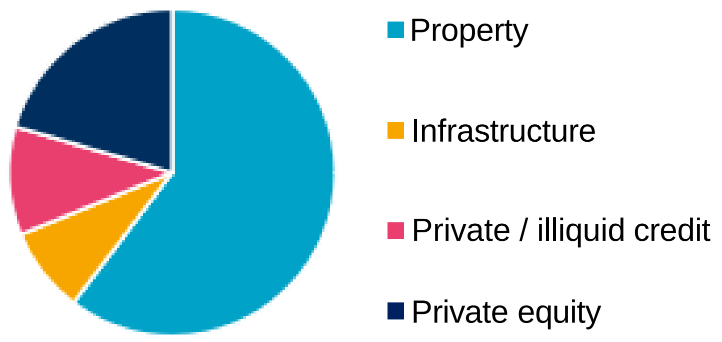
Key statistics

7% overall allocation to illiquid assets

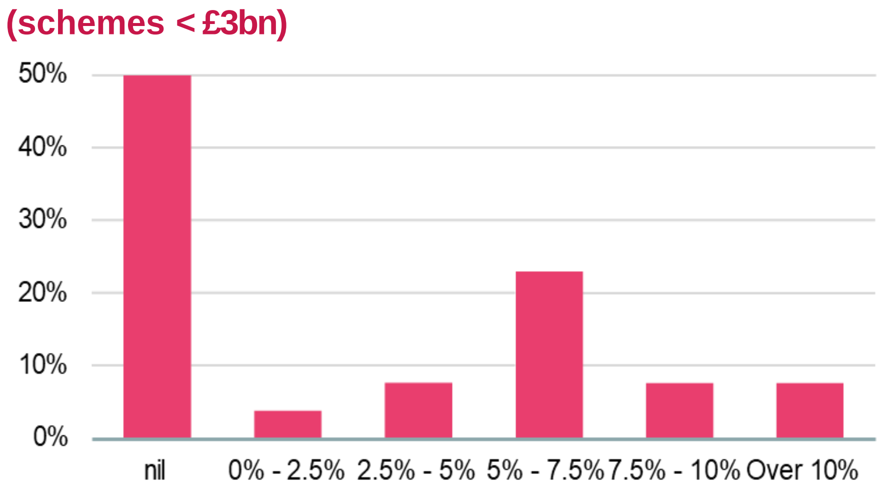
67% of schemes have illiquid assets

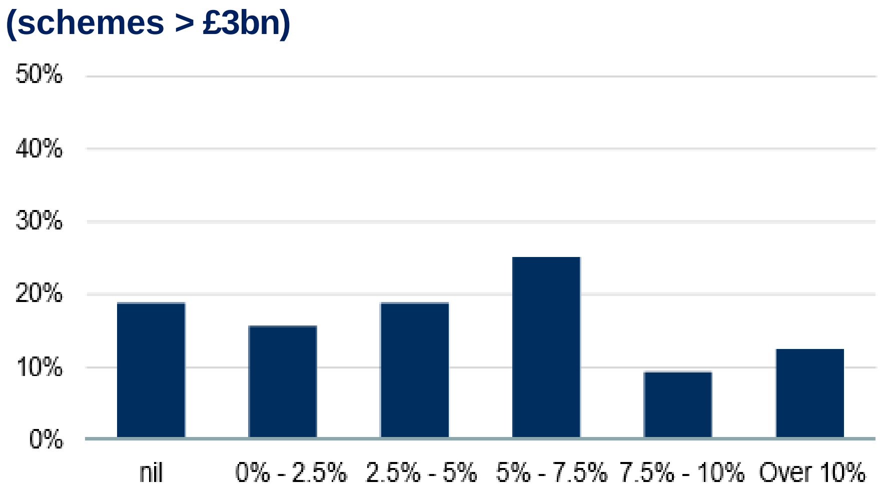
- 43% have > 5% allocation to illiquids
- Minority have more than 20% allocation to illiquids

Distribution of illiquid asset classes



Distribution of allocation to illiquid assets





#3 Illiquid assets challenge

Source: LCP analysis based on information available within company accounts.

Potential solutions

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

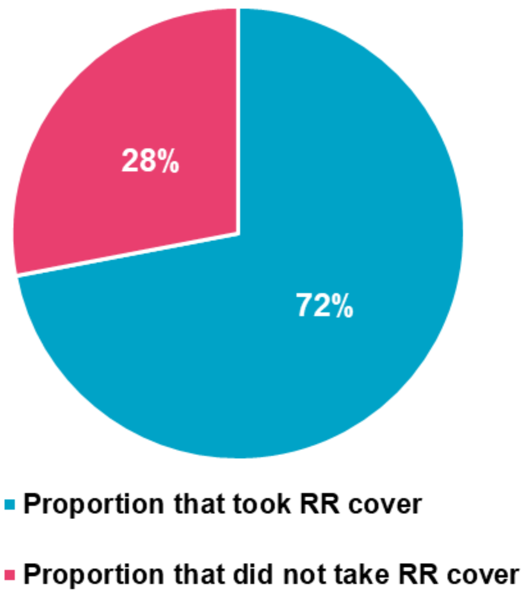
Strategic options

- Company underwrite
- Match against surplus / expenses
- Delay / split transaction

#3 Illiquid assets challenge

Is residual risks cover worth pursuing?

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



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.

#4 Is residual risks cover worth the cost?

Any questions?

Scope

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