

Buy-outs and buy-ins

Autumn 2016

Some significant recent transactions suggest that it could be a strong second half to 2016, following a quieter than usual start to the year. The period also saw one of the long-established bulk annuity insurers announcing its withdrawal from the market.

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Buy-outs and buy-ins: market statistics

A summary of the bulk annuity business completed in the first half of 2016 with UK pension schemes is as follows:

	Total transactions in H1 2016	
	Number of cases	Value of cases (£m)
Aviva	13	71
Canada Life	1	35
JRP Group (note 1)	6	164
Legal & General	8	641
Pension Insurance Corporation	2	897
Prudential (note 2)	-	-
Rothsay Life	-	-
Scottish Widows	3	884

Notes

1. The separate figures for Just Retirement and Partnership prior to their merger in April have been combined.
2. Prudential announced their departure from the market in August.

The total business written in the first half of the year with pension schemes was nearly £2.7bn, significantly lower than the corresponding period in 2015 when £4.4bn of business was completed. However, these transactions only form part of the picture. Some bulk annuity providers have completed reinsurance transactions for the retail annuity back books of other insurers, such as the two deals for the Aegon annuity book totalling £9bn.

The introduction of the new regulatory regime for insurers, Solvency II, and the uncertainties surrounding the EU Referendum have also influenced market activity. In particular, a number of schemes looked to complete transactions before Solvency II came into force in January, leading to a short term reduction in the pipeline of cases in the first part of this year.

The lower business levels for some of the insurers may see a strengthened appetite for the remainder of the year as they strive to meet their targets.



Insurer news

Prudential have formally announced that they are no longer quoting in the bulk annuity market. This follows comments at the beginning of the year that they had a reduced appetite for bulk annuity business. The number of currently active insurers is now reduced to seven.

The new Insurance Act 2015 came into force in August. The Act covers the requirements for trustees to disclose any material information to insurers when seeking to transact. It also provides some additional protections to trustees, particularly in relation to any warranties provided and the insurer making late payments. As a result, whilst this may not represent a dramatic change, insurers will need to review their contractual wording for new policies in light of the Act.

Significant transactions

The ICI Pension Fund has now completed five buy-ins with either Legal & General or Scottish Widows since March. Overall, these total over £2.5bn. These are the latest in a series of buy-ins that the ICI Fund has completed since March 2014. They have insured over £8bn worth of liabilities through 11 transactions during this period.

The Pilkington Superannuation Scheme has completed a £230m pensioner buy-in with Pension Insurance Corporation.

The Electricity Supply Pension Scheme, which is sponsored by Scottish Power, has completed a longevity swap with Abbey Life covering £1bn of pensioner liabilities. This covers 4,000 pensioner members in the Manweb section of the Scheme.

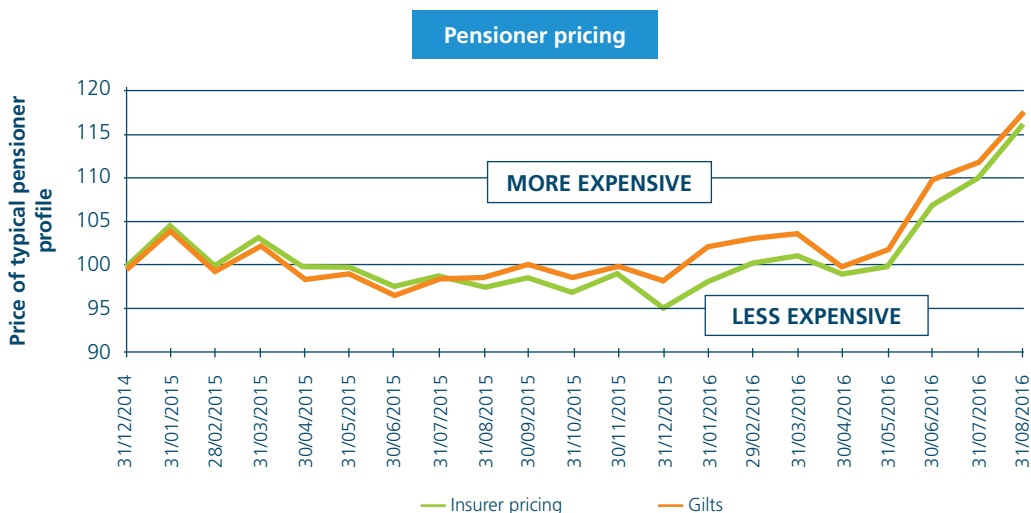
Two Pirelli schemes, the Pirelli General Pension and Life Assurance Fund and the Pirelli Tyres Limited 1988 Pension and Life Assurance Fund, have completed a joint longevity swap with Zurich covering £600m of pensioner liabilities. The swap covers around 5,000 pensioners and contingent dependants.

Pricing

Insurer pricing increased markedly following the EU Referendum result, reflecting the sharp fall in long-term bond yields. This increase in pricing is shown in the graph below for a representative pensioner population (green line).

However, whilst absolute pricing has increased, pensioner pricing remains generally attractive when compared to the equivalent liability assessed using gilt yields (orange line). As a result, schemes may be able to exchange their gilts for a buy-in policy without adversely affecting their funding position.

As highlighted earlier, any increased appetite from the insurers in the lead up to the year-end may also provide some beneficial pricing opportunities.



Source: Barnett Waddingham model using pricing information from a range of leading insurers. In practice, any pricing will depend on the specific characteristics of the scheme and can only be determined by obtaining actual quotations. The chart above does not reflect the pricing which may be achieved from medical underwriting.



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Please contact your Barnett Waddingham consultant if you would like to discuss any of the above topics in more detail. Alternatively contact Gavin Markham, Chris Hawley or Mark Paxton via the following:

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