



Risk Settlement Group Settlement market update

18 April 2018

Martin Bird, Mike Edwards, Phil Curtis

Prepared by Aon
Risk Settlement Group



Today's speakers



Martin Bird



Mike Edwards



Phil Curtis

What we are going to cover



Market overview



Case studies



How to stand out in a busy market



Bulk Annuity Compass



Phased buy-in strategies



Options for small schemes



Changing views on member options



Longevity outlook



Longevity market update – and announcing a £2bn transaction

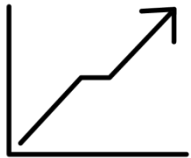


Watch out for more...

Risk Settlement Market overview

Over
£18bn

Of risk transferred to bulk annuity and longevity swap providers in 2017



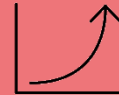
Buyout positions for many schemes **improved by over 10%** in 2017

8

bulk annuity providers actively pricing

10+

risk takers in the longevity hedging market







Bulk annuities market expected to exceed

£30bn

For the first time ever in 2018









2017 saw some of the most attractive bulk annuity pricing in ten years for **transaction ready** schemes.

Bulk annuity market – a closer look at 2017 and the insurers

	2017 volume
 AVIVA	£2.0bn
 Canada Life	£0.5bn
 JUST.	£1.0bn
 Legal & General	£3.4bn
 PENSION INSURANCE CORPORATION	£3.7bn
 PHOENIX GROUP	£0.0bn
 Rothesaylife	£1.0bn
 SCOTTISH WIDOWS	£0.6bn
	£12.3bn









In 2018 we expect insurer appetites to increase to match the increased levels of demand.

Bulk annuity market – a closer look at 2017 and the insurers

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	£12.3bn					

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Looking back at 2017 – what were Aon involved in?

Aon are the only
adviser to place
business with
**every bulk annuity
provider in the
market.**



11 Bulk annuity transactions in 2017

£2.1bn ranging from under £10m to c£600m



6 cases completed so far in 2018

Actively working with 20+ schemes in the auction process



Advised over 100 clients

In each of last 3 years



Market leader on longevity pricing and structuring advice

Success of £2bn longevity swap in 2018



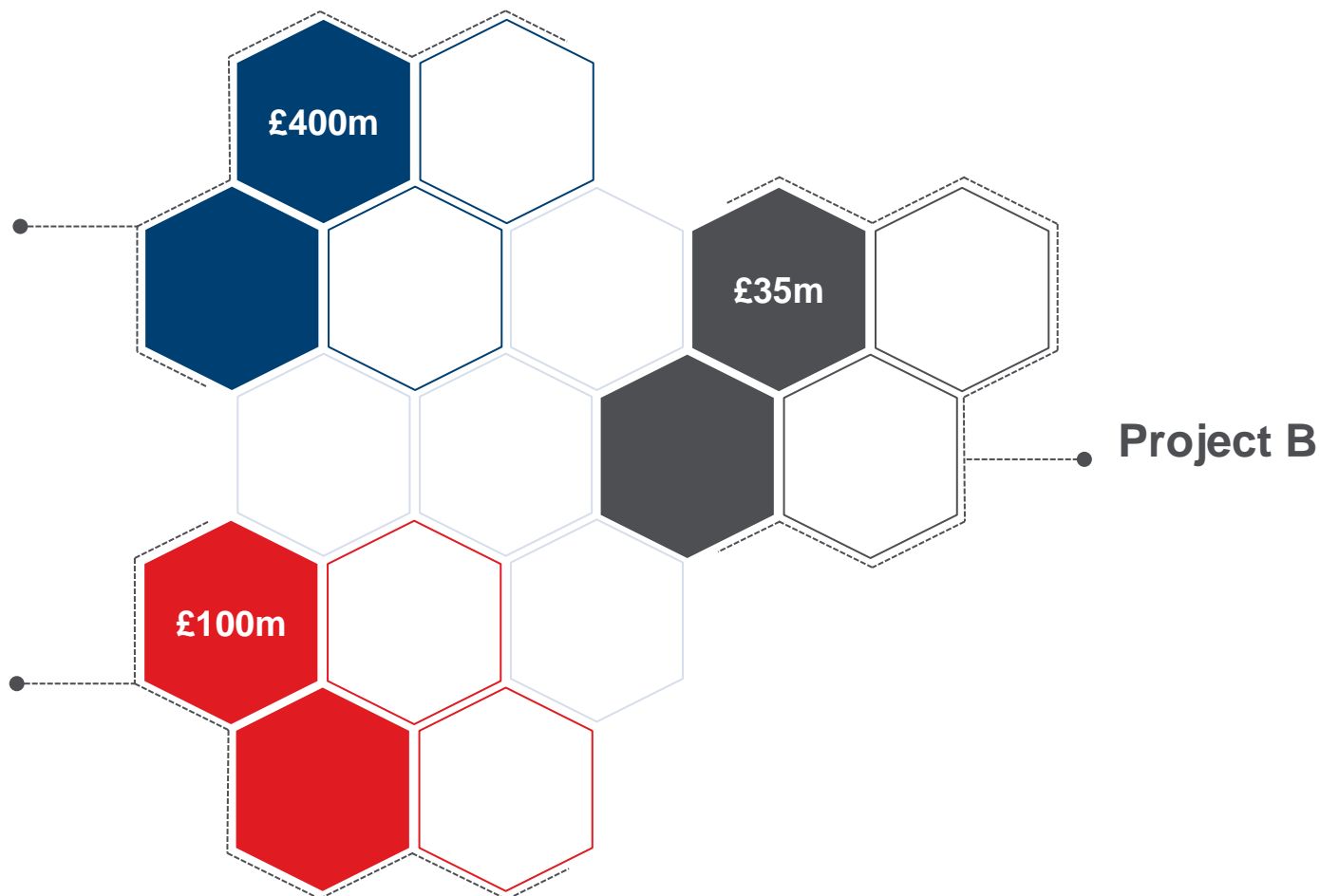
Robust negotiation drives better outcomes

95% of cases taken to market successfully transact with Bulk Annuity Compass

Case studies – using buy-ins to support de-risking in a range of scenarios

Project A

Project C

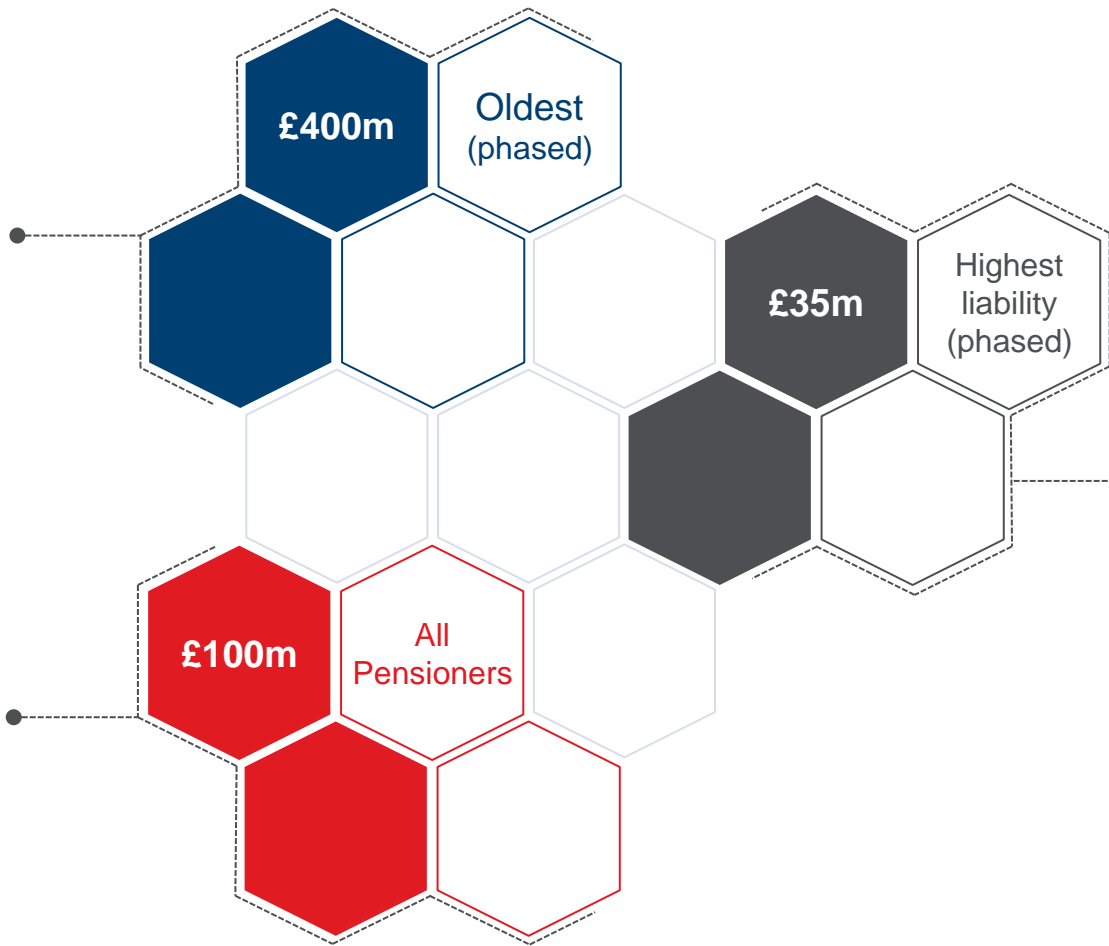


Case studies – using buy-ins to support de-risking in a range of scenarios

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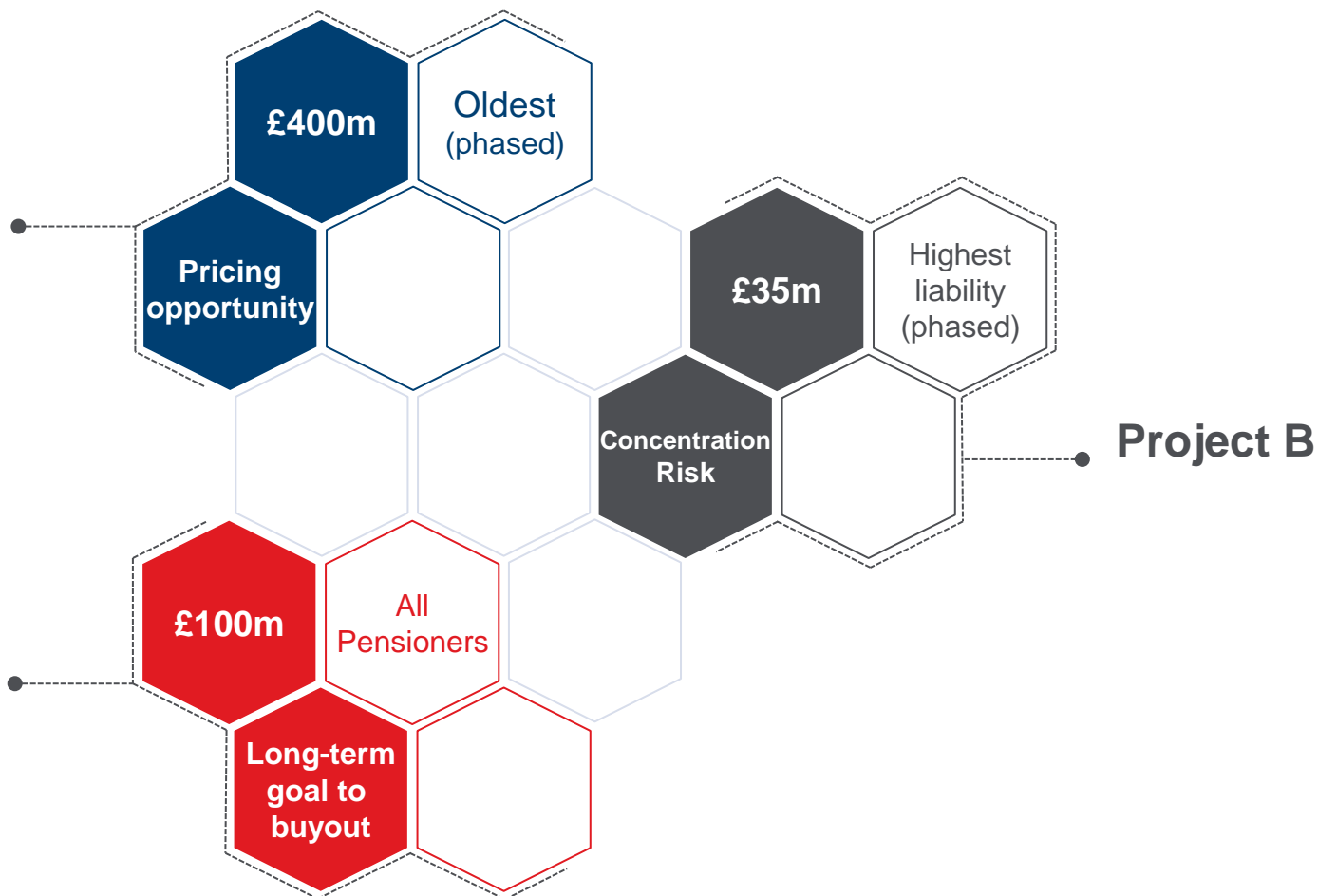
Project C

Project B



Case studies – using buy-ins to support de-risking in a range of scenarios

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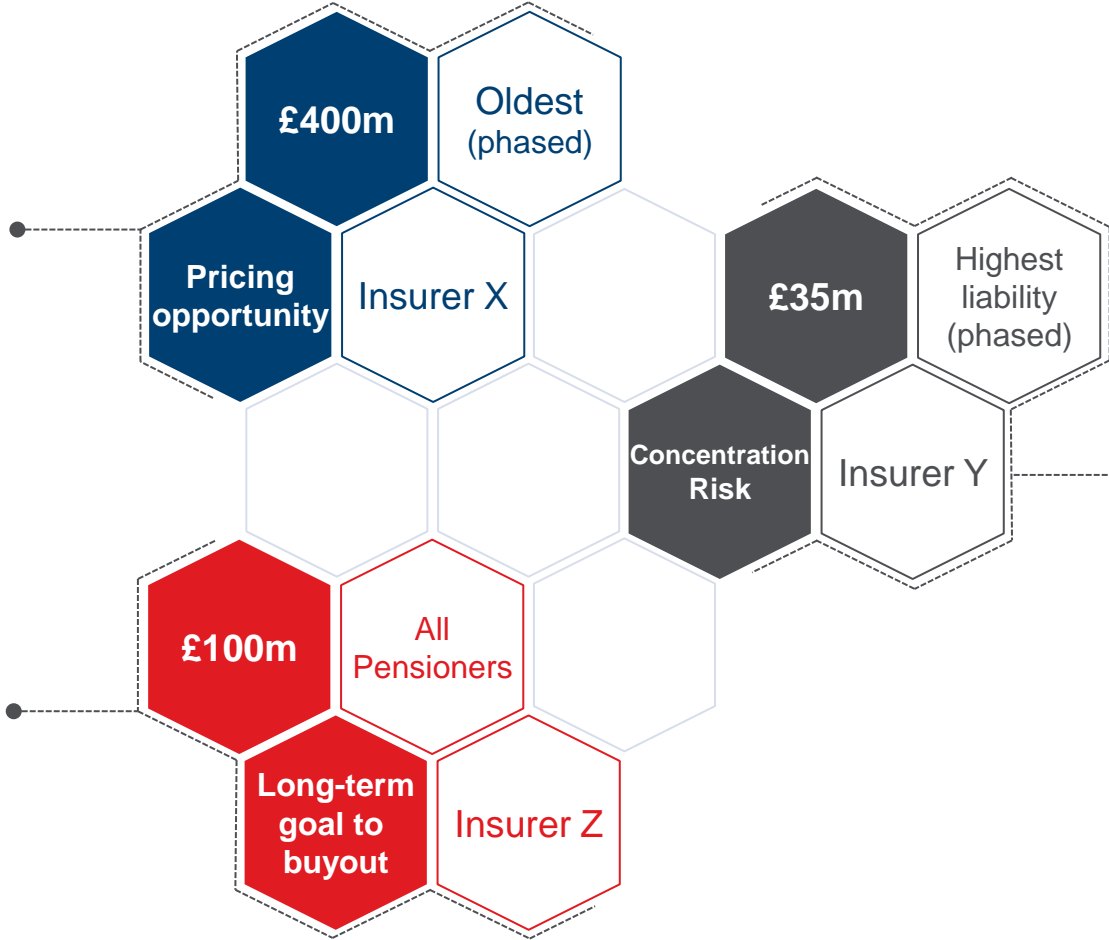


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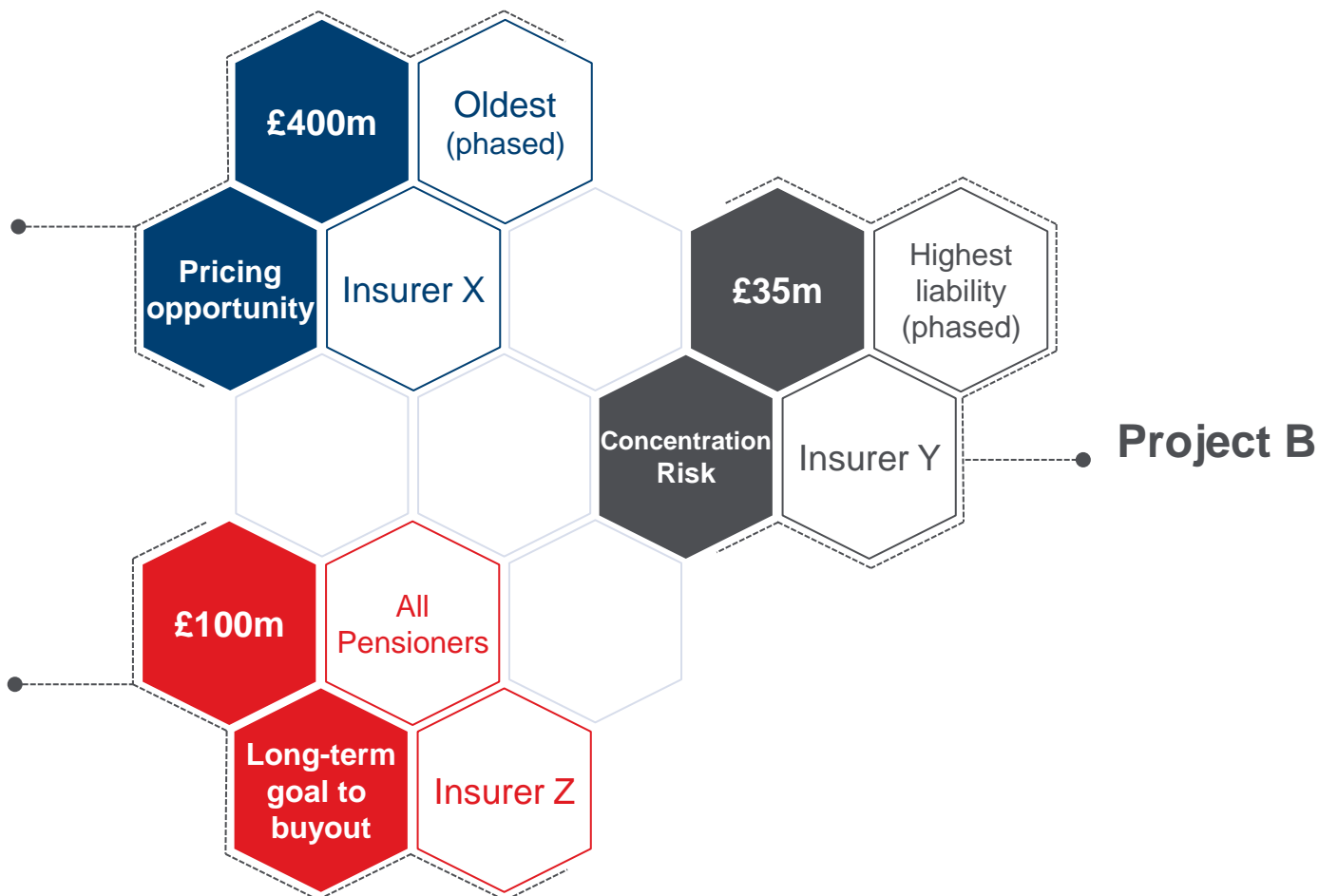
Project C

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Case studies – using buy-ins to support de-risking in a range of scenarios

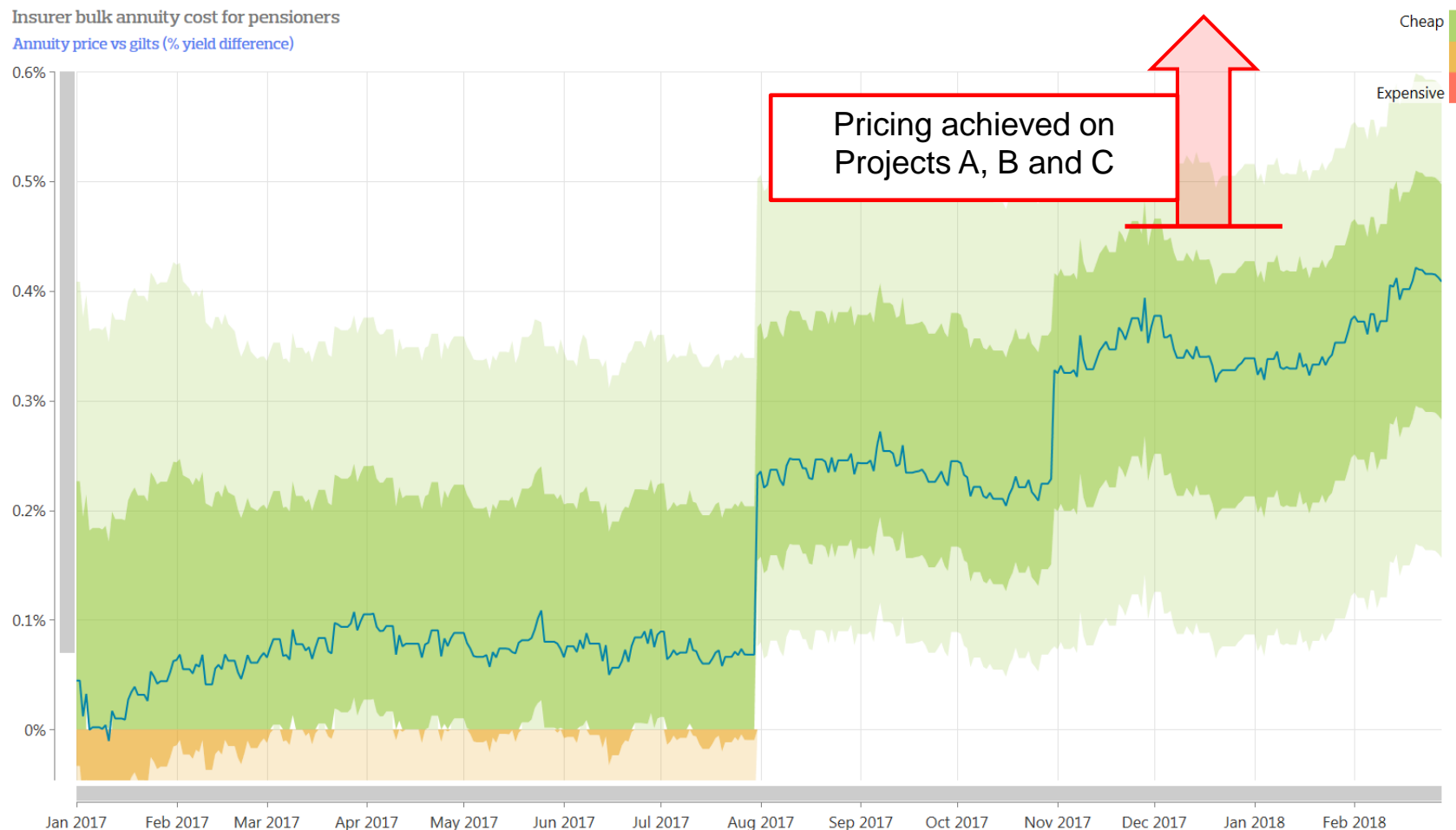
Project A



Project C

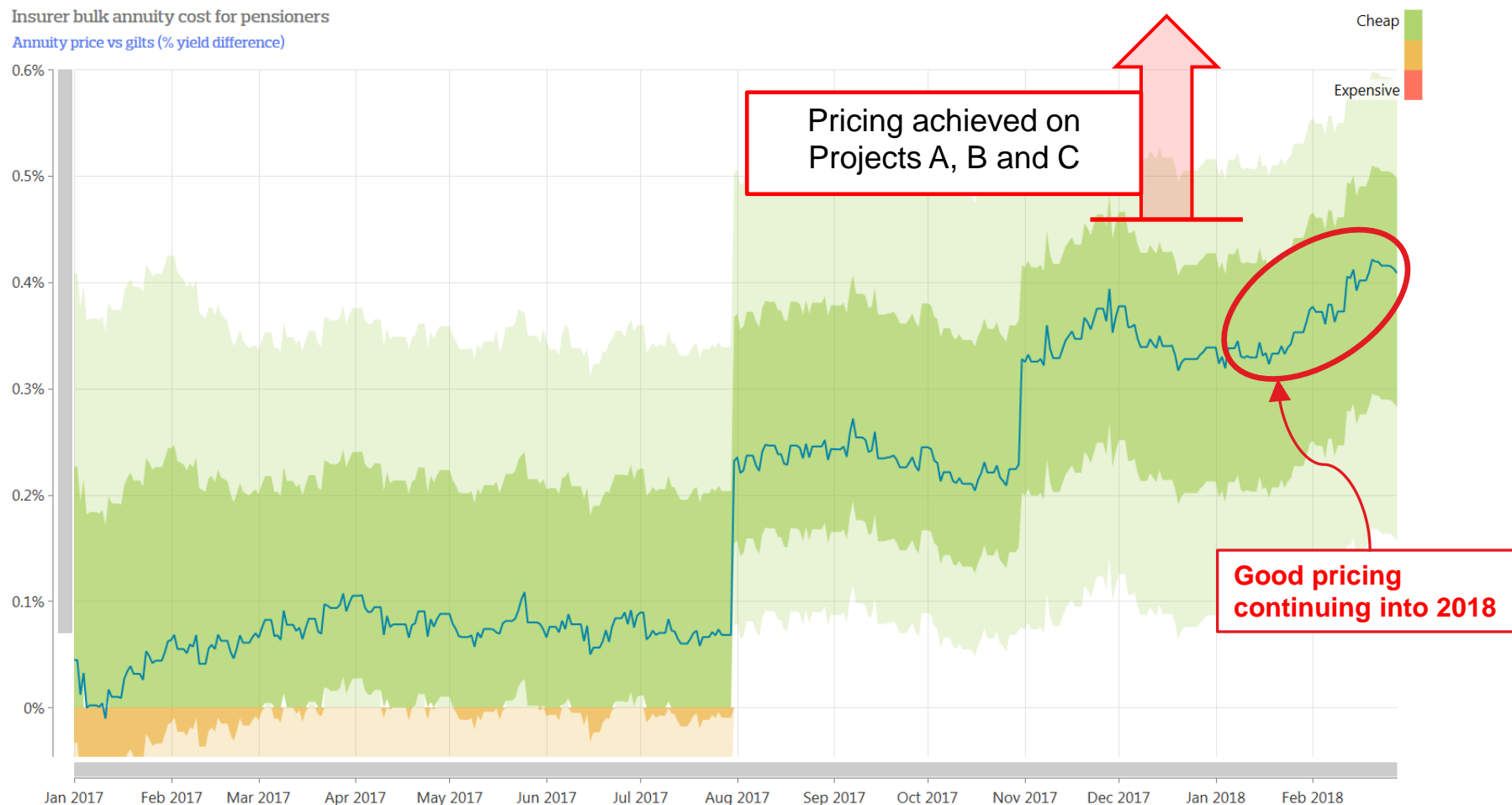
Three very different cases all experiencing a funding position boost following transaction!

Case studies – using buy-ins to support de-risking in a range of scenarios



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Three very different cases all experiencing a funding position boost following transaction!

Bulk annuity pricing – key drivers

Key pricing drivers

Whilst bulk annuity pricing varies with market conditions there are four key drivers underlying the price for any transaction



**Investment
strategy and
returns**

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**Demographic
assumptions
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**Capital and
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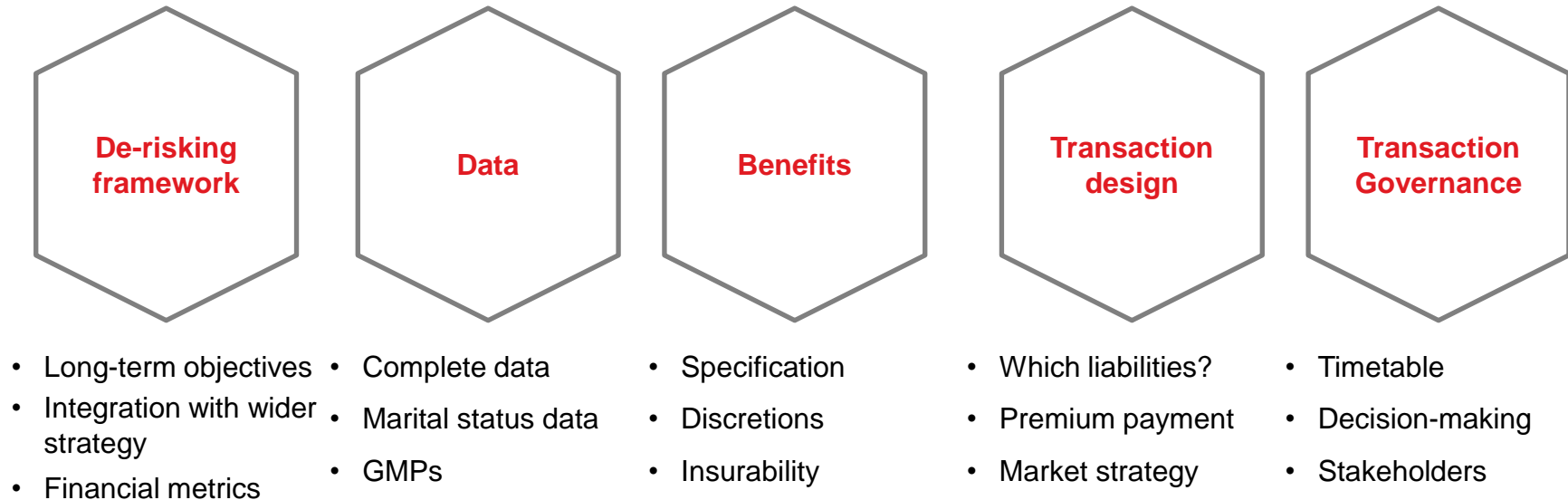


**Market
dynamics and
appetite**

How do insurers assess opportunities?



How to stand out in a busy market?



Bulk Annuity Compass

The complete solution for bulk annuities

How to stand out in a busy market?

De-risking
framework

Data

Benefits

Transaction
design

Transaction
Governance

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The complete solution for bulk annuities

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Preparation can start now for schemes with a long term objective which may incorporate bulk annuities.

Bulk Annuity Compass

The complete solution for bulk annuities

How does preparation influence pricing?

		De-risking framework	Data	Benefits	Transaction design	Transaction Governance
Investment strategy and returns				✓	✓	✓
Demographic assumptions and longevity hedging costs			✓		✓	
Capital and reserving requirements			✓	✓	✓	
Market dynamics and appetite		✓	✓	✓	✓	✓

As well as engaging insurers to quote, preparation is key to driving the best pricing outcomes.

Preparation dashboards to ensure a robust process

Establishing a de-risking framework dashboard

Item	Establishing a de-risking framework	Status / actions
Long term objectives	What are the Trustee and Company's long term objectives?	[Buy-out]

Benefits preparation dashboard

Item	Benefits preparation	Status / actions
Benefit specification	Does the [Scheme/Plan/Fund] have a benefit specification readily available that could be shared with insurers?	[Yes, valuation benefit specification could be]

Data preparation dashboard

Item	Data considerations	Status / actions
GMP reconciliation	Has a GMP reconciliation exercise been carried out?	[Exercise underway, not]

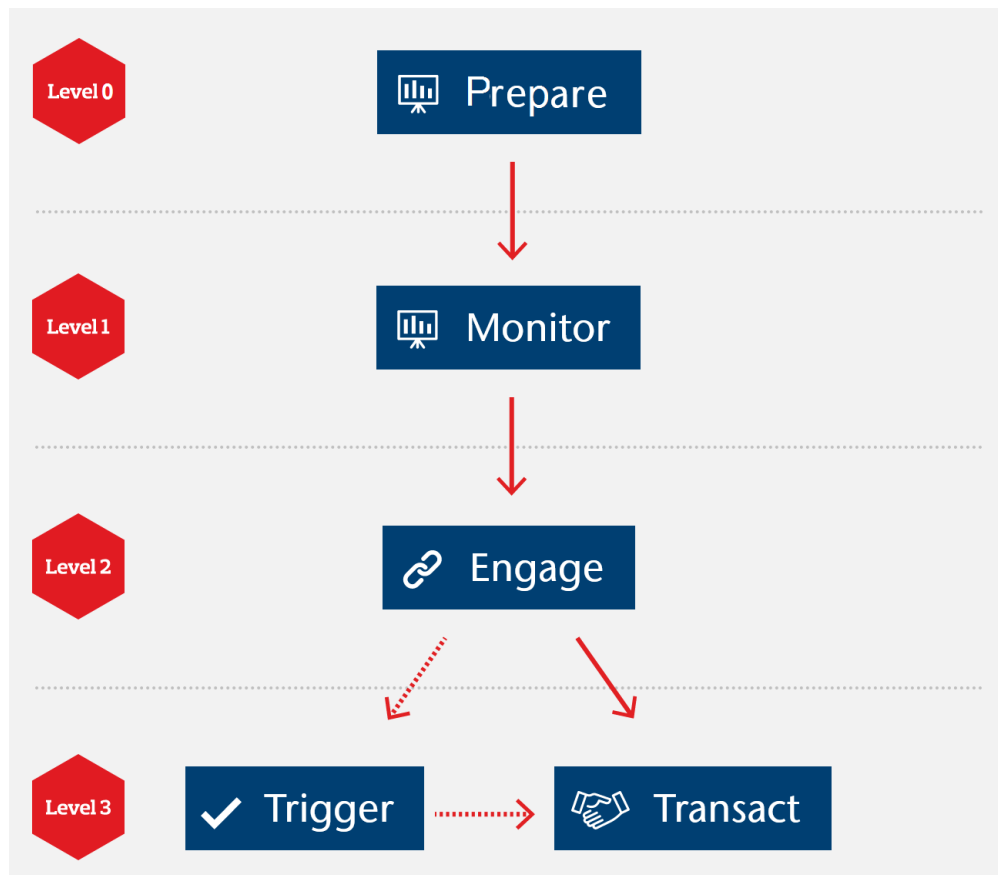
Transaction design dashboard

Item	Asset preparation	Status / actions
Investment strategy	Does the investment strategy allow for de-risking over time in line with	[Scheme has a plan for de-]

Transaction governance dashboard

Item	Approach to market strategy	Status / actions
Knowledge of insurers	Do the Trustees and Company know enough about the potential counterparties in the market?	[Considered as part of a training session a few years ago, perhaps look at a refresher training session?]
Knowledge of insurance products	Do the Trustees and Company know enough about the different insurance options in the market (e.g. buy-ins, buy-outs, partial buy-ins and longevity swaps)?	[Bulk annuities training provided, longevity swaps not yet covered]
Regulatory protections	Do the Trustees and Company monitor and understand key developments in the market, including regulatory protections?	[Cover as part of training session]
Restricted	Are there any insurers the Trustees or Company would not be prepared	[To be considered with the]

Bulk Annuity Compass



“

Since launching Bulk Annuity Compass in 2016 we have achieved a 95% success rate, completing 20 transactions and securing c£3.7bn of liabilities. The four levels – prepare, monitor, engage, transact – provide schemes with a tried and tested framework for de-risking through bulk annuities.

”

<https://bulkannuitycompass.aon.com/>

Phased buy-ins – how common is this becoming?

**Over
66%**

of schemes looking to buyout plan to secure liabilities when pricing opportunities arise

**Nearly
50%**

of buy-ins over £100m completed in the last two years relate to liability subsets

20+

buy-ins in the last three years where Aon was lead adviser have related to liability subsets as part of a phased buy-in strategy

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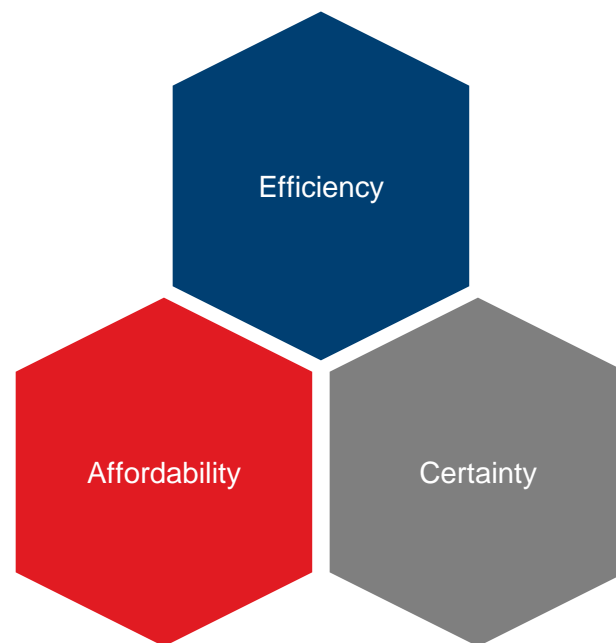
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Why?



Phased buy-ins – key components



De-risking framework

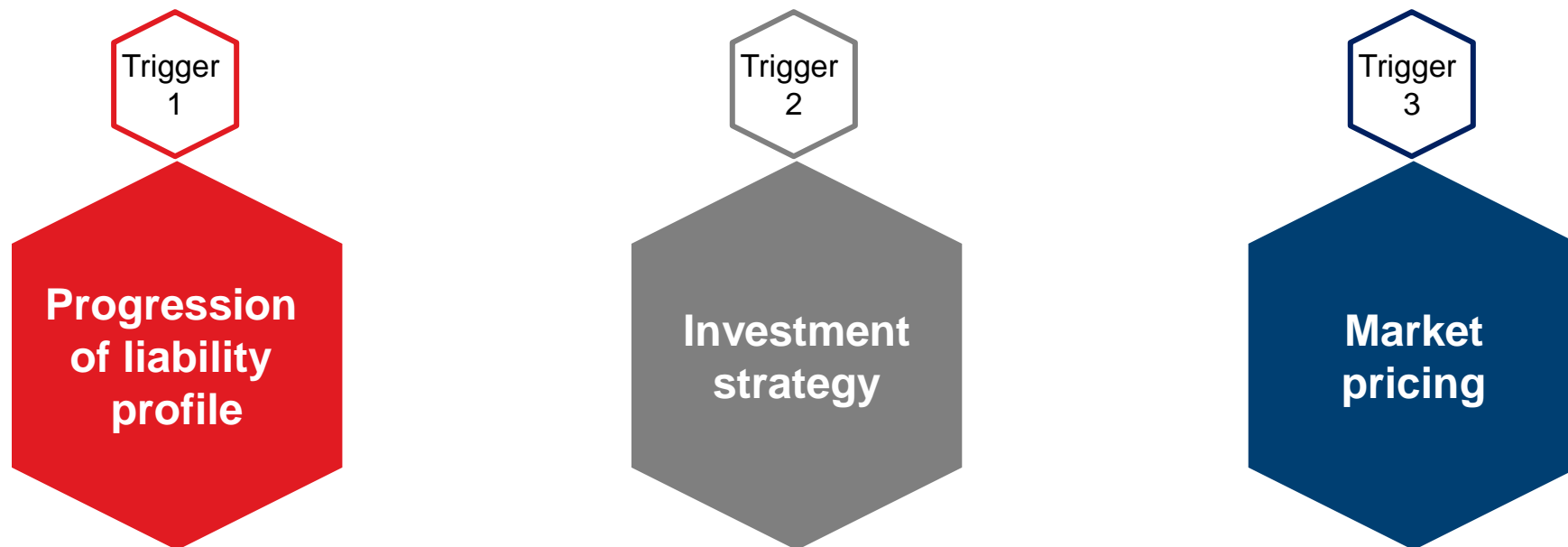
- How do phased buy-ins integrate with wider investment strategy?



Transaction design

- Which members should we insure and when?

Phased buy-ins – an example framework





Only transact when there are sufficient liabilities to make the resource worthwhile and attractive to insurers.

Only transact to the extent there are sufficient assets available and the scheme remains on track to achieve its long-term target.

Only transact when current pricing levels support a transaction that meets financial metrics.

Install criteria across funding and investment strategy to determine a phased buy-in framework.

Which members to insure?

	✓	✗	Used by Aon with
Top slice	Remove concentration risk	Unattractive to some insurers	Kingfisher
Oldest members	Potentially attractive price vs gilt yields	Removes the perceived least risky liabilities	FERGUSON
Random selection	Insurer favoured Demonstrably no selection risk	May achieve better pricing outcome on a different subset	
Benefit structure	Insurer cheaper liabilities (e.g. RPI linked pensions)	Leaves more expensive liabilities (e.g. CPI linked pensions)	smiths bringing technology to life
Youngest members	Remove riskier pensioner liabilities	Unusual residual risk profile remains	 PILKINGTON

Consideration should be given to risk reduction achieved vs price as well as the insurability of remaining liabilities.

“Small” bulk annuity transactions – the why and the how

Why?

Insurers actively target this size

Phasing still has its advantages

Project fees are covered by savings

How?

The Bulk Annuity Compass framework still applies

Immediate exclusivity may be the answer

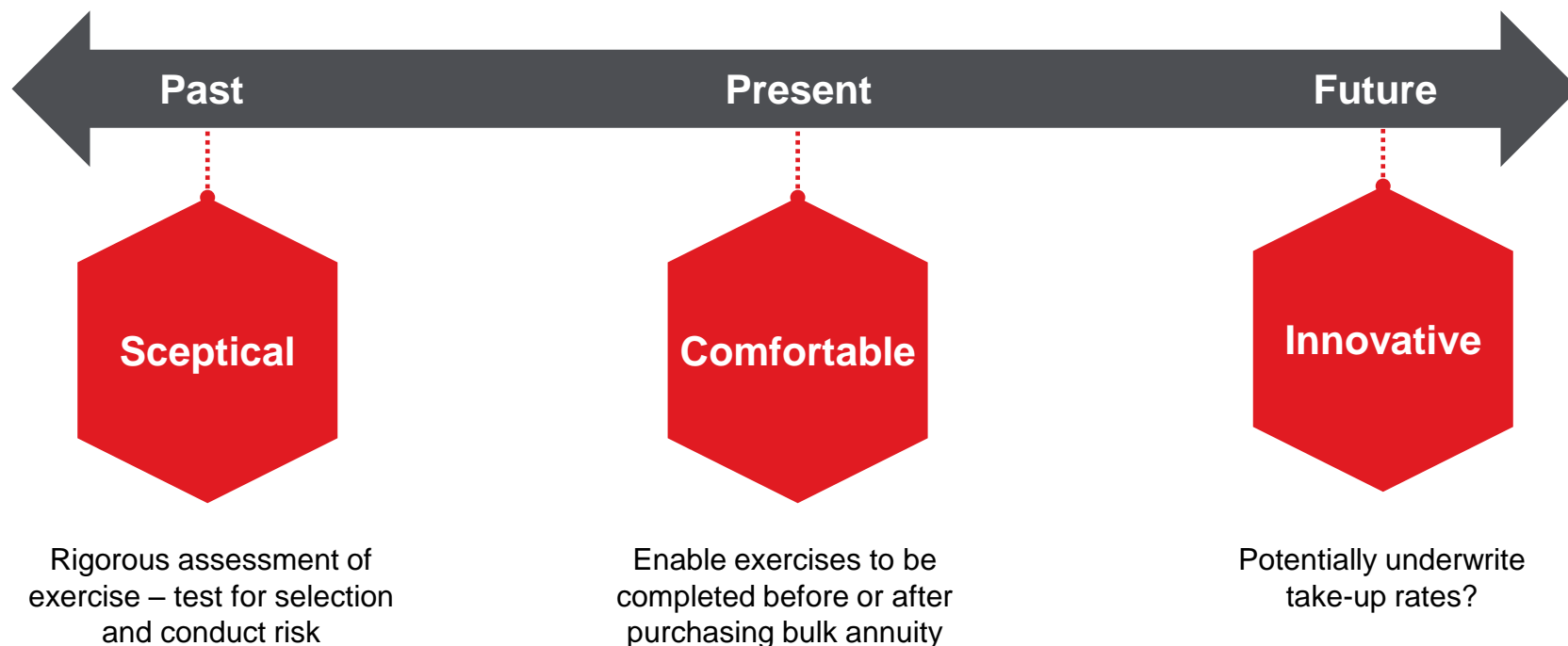
Consider a stretching target

Sub-£50m
Getting the best price

Schemes of all sizes can benefit from current market pricing through a straightforward process.

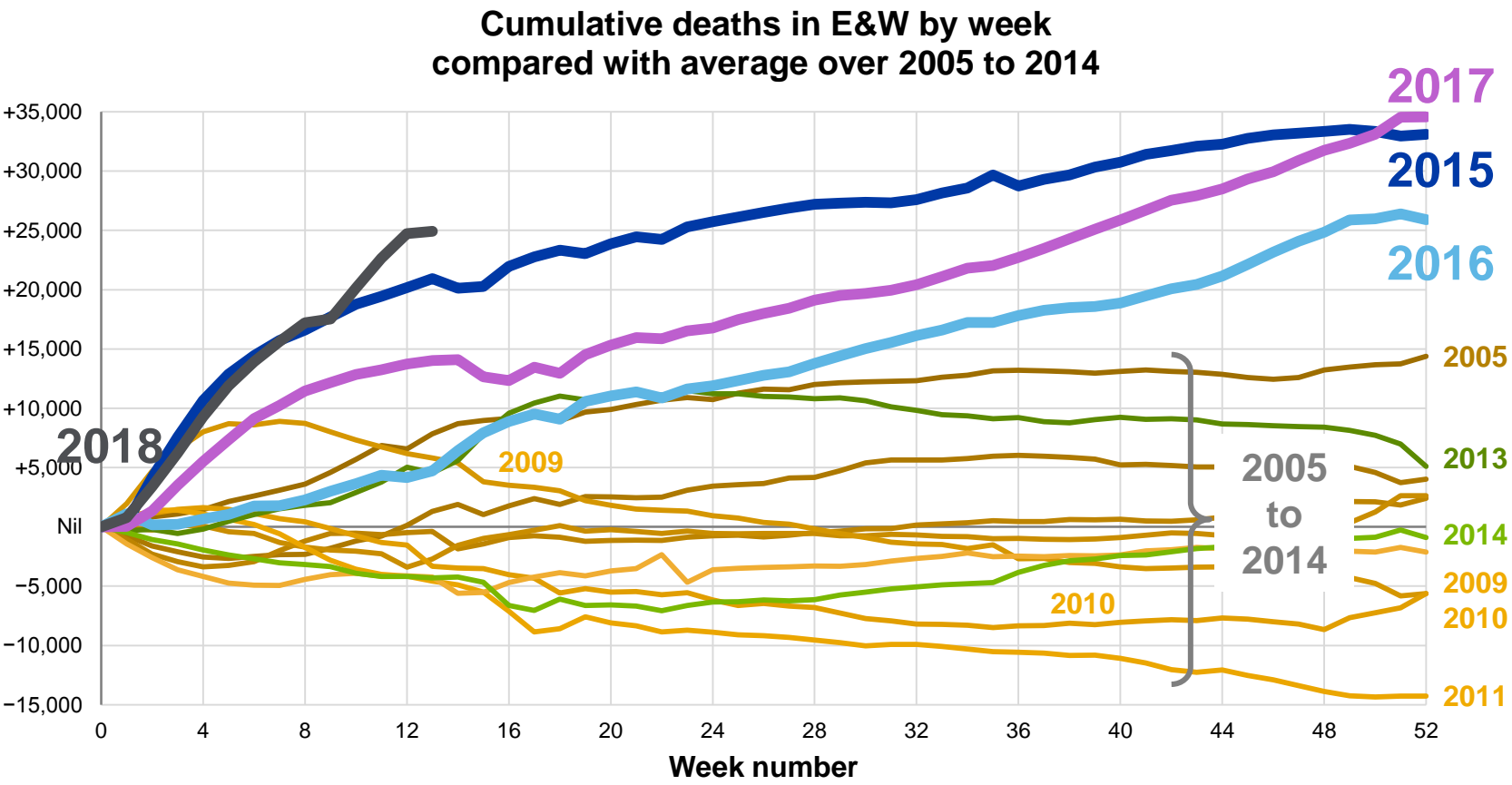
Liability settlement – considering member options with annuities

Insurers view of member options exercises



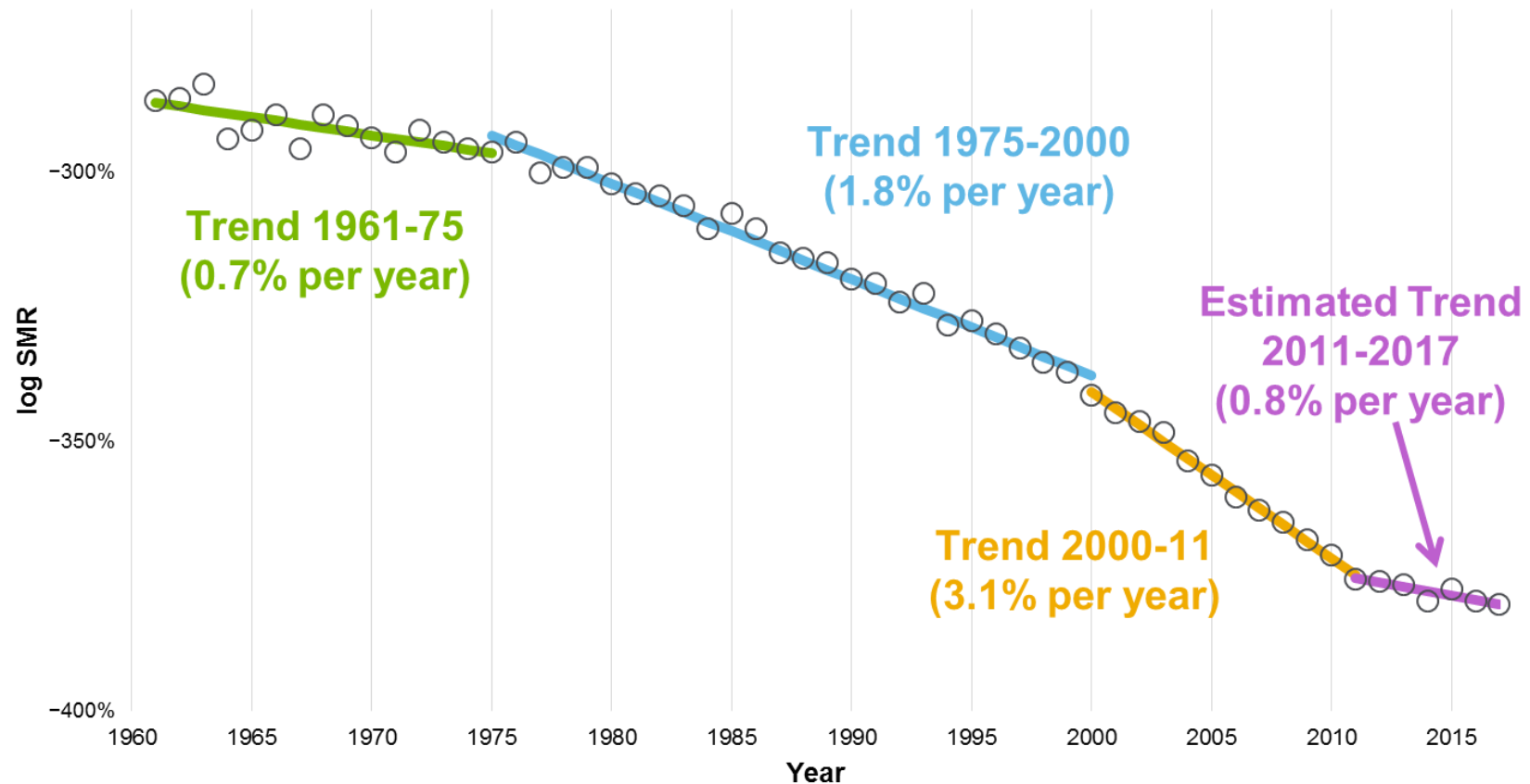
Insurers have recognised that member options exercises are now mainstream and a core part of the de-risking toolkit.

Longevity outlook – what a difference a few years make



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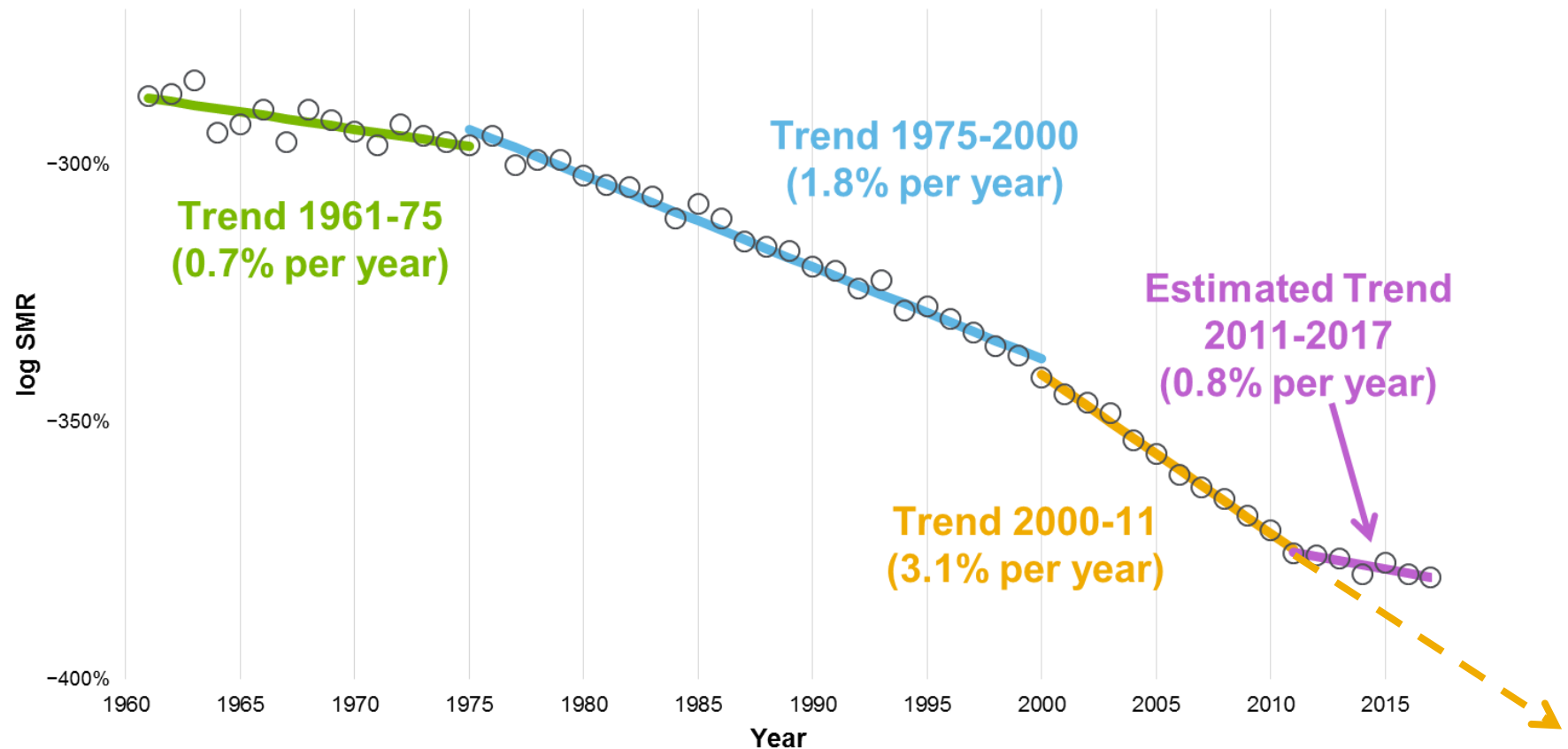
Standardised national male mortality rates



Calculations by Aon Hewitt using ONS and CMI data.

Longevity outlook – pricing projections

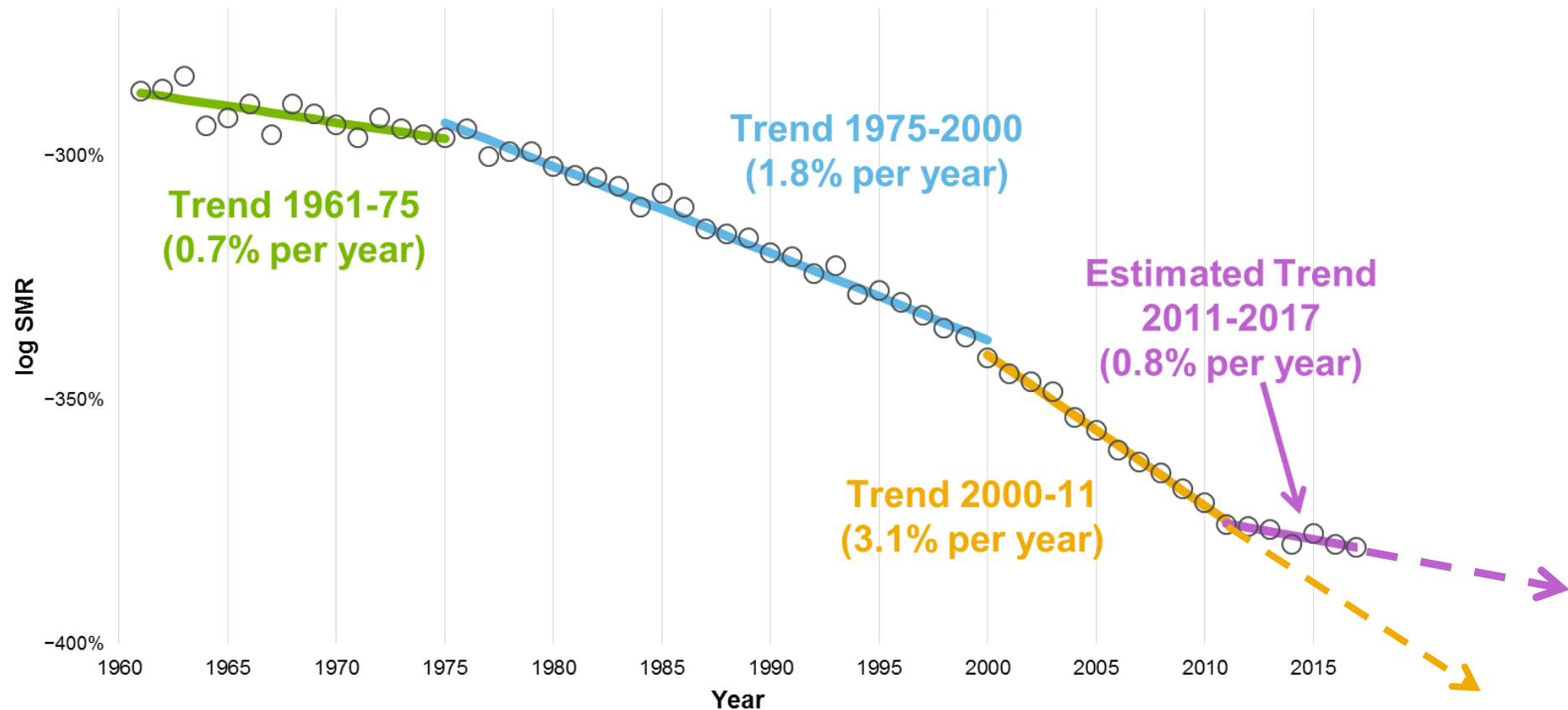
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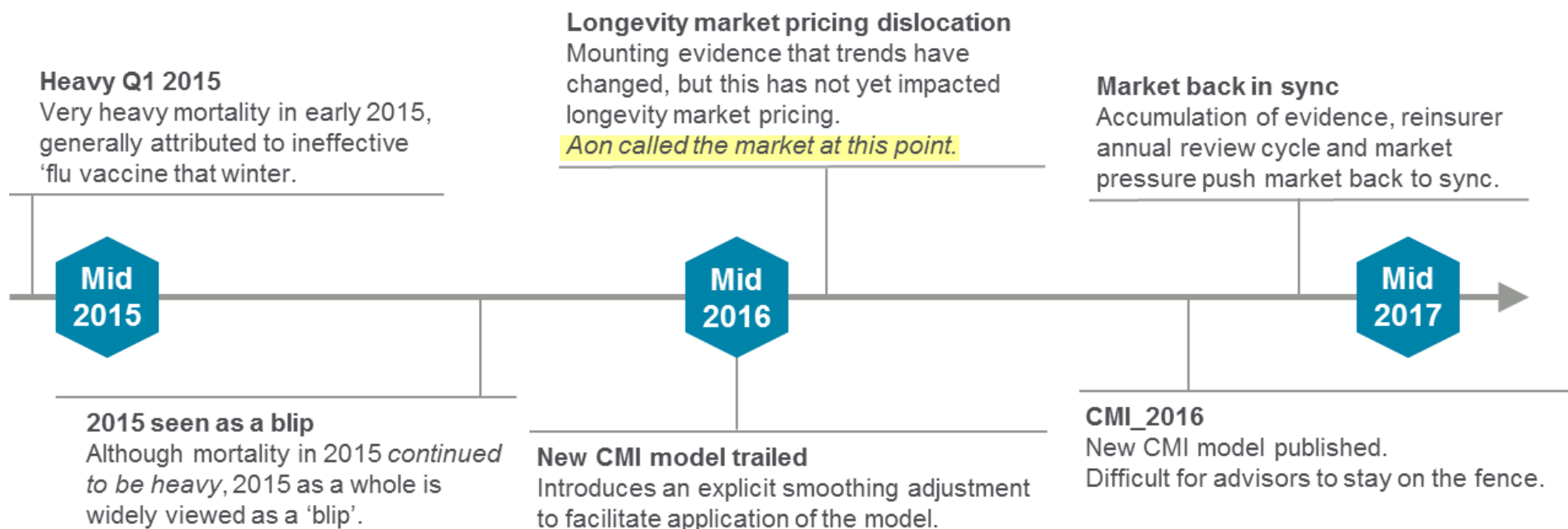
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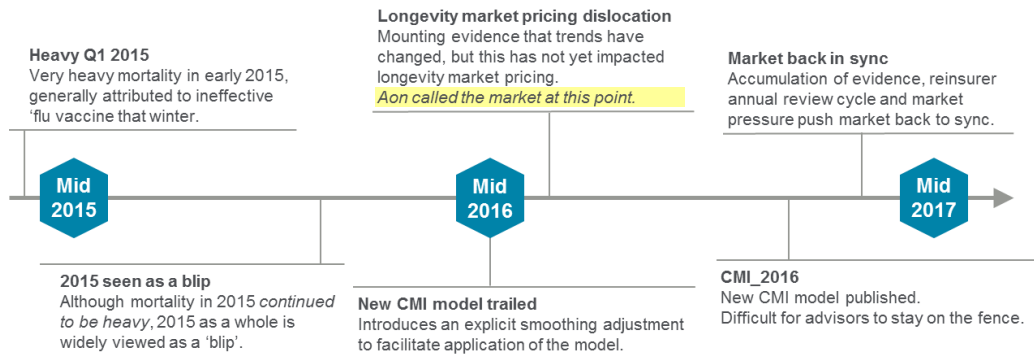
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Longevity market update – dislocation to relocation in 2 years...



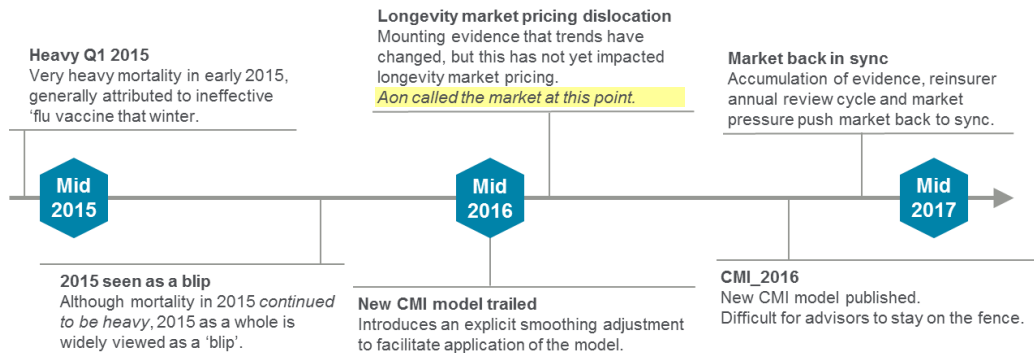
Longevity market update – dislocation to relocation in 2 years...

1. Market dislocation / relocation



Longevity market update – dislocation to relocation in 2 years...

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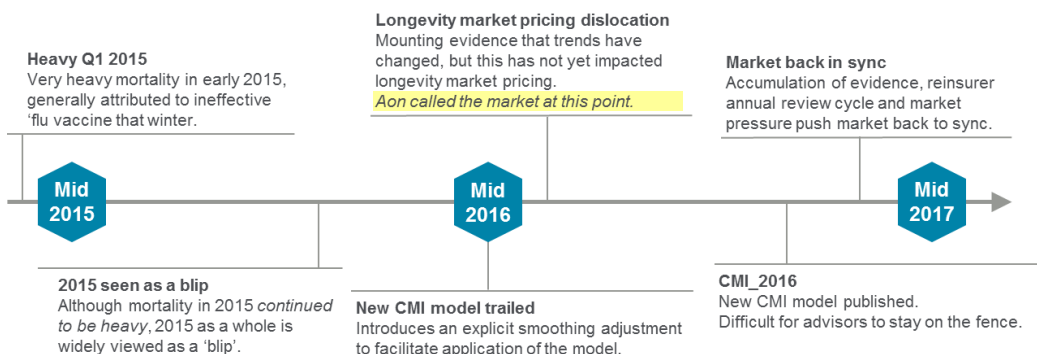


“ Amy Kessler, Head of Longevity Risk Transfer at Prudential Financial, 30 May 2017:

[It] did take some time for the industry to determine that the current trend had shifted to a materially lower level. This updated data is now taken into the current market pricing for longevity risk transfer. As the current levels of improvements are much lower than in the past, the risk is now priced substantially lower than before. ”

Longevity market update – dislocation to relocation in 2 years...

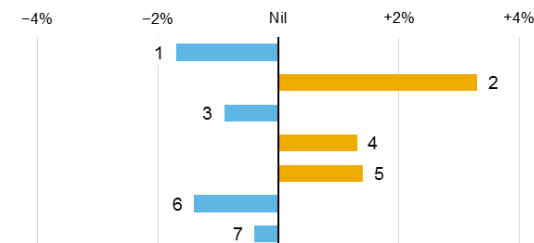
1. Market dislocation / relocation



2. Recent £2bn pension scheme longevity swap pricing

Reinsurer best estimate vs experience + CMI_2016[1.5%; S=8]

Positive means reinsurer assumed *higher* life expectancy than scheme



- Several reinsurers best estimate mortality basis more aggressive than up-to-date scheme view
- Coupled with competitive risk fee loadings

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Deep understanding of longevity market – not afraid to call the market to influence scheme outcomes

A case study in longevity pricing relocation



Summary

- **£2Bn longevity swap covering pensioners, executed end-March**
- **Ground breaking transaction with new intermediary – active selection by client of full intermediation structure, demonstrating not ‘one size fits all’**
- **Good value hedge cost, reflecting “relocated” pricing levels**

A case study in longevity pricing relocation

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Longevity pricing

- **Initial pricing in mid-2016 did not reflect emerging mortality trends**
- **Re-priced in Q3 2017 with excellent market participation with multiple reinsurers chasing transaction**
- **Final pricing ≈ 2% improvement vs 2016 pricing (c.£40M decrease in price)**

A case study in longevity pricing relocation

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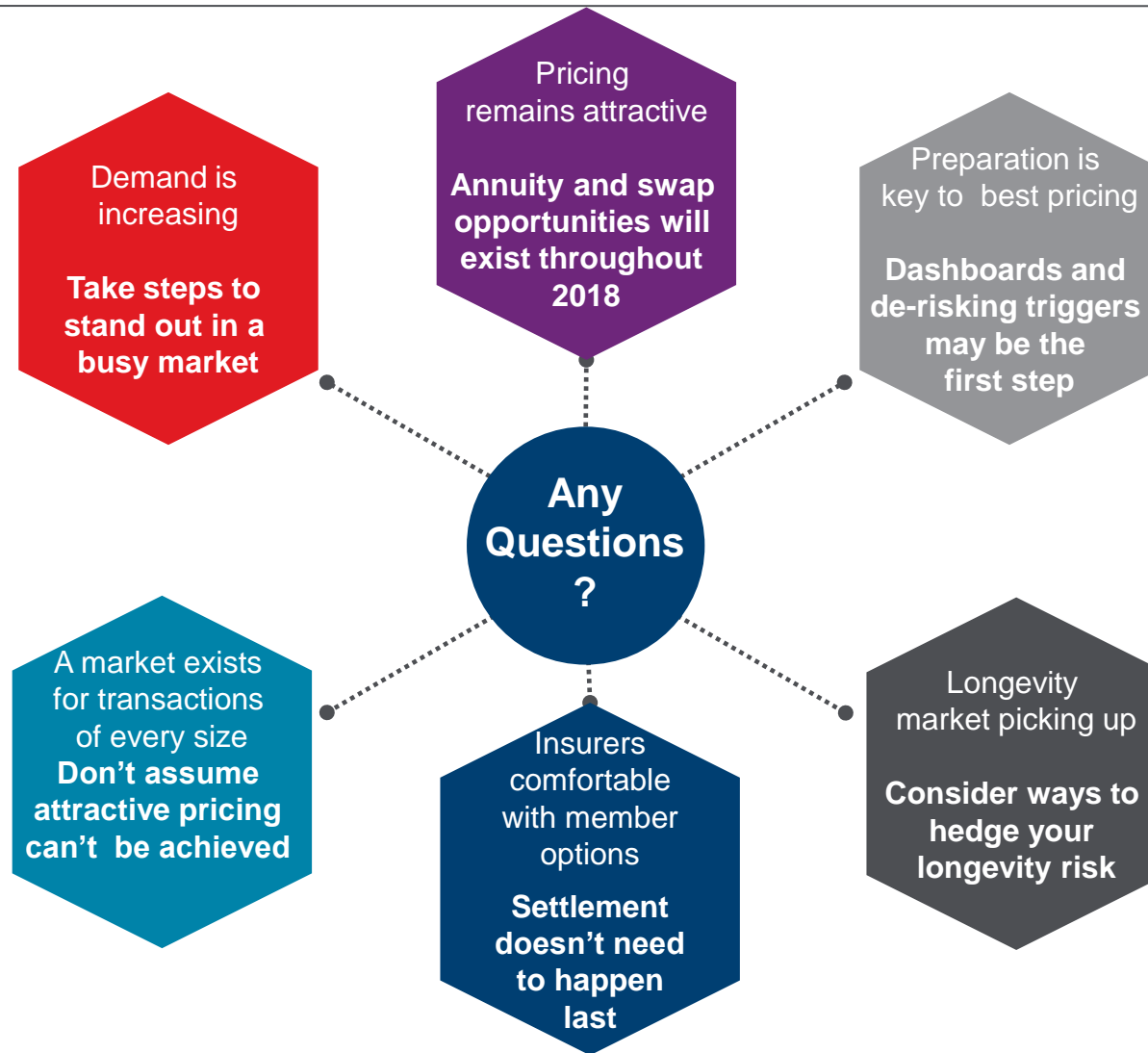
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Structure & provider

- **Detailed consideration of all structural options → client preference for higher cost but lower risk / governance ‘full intermediation’ structure**
- **Aon worked with new intermediary to develop offering with attractive commercial terms**
- **Other UK insurers also considering entry to market**

Key takeaways



Watch out for more....

Annual market review 2018

Out now!

Risk Settlement Group Conferences

London – 15 May
Birmingham – 6 June

Client webinars

18 April
11 July
+Specialist longevity webinars



Risk Settlement Bulletin

Regular market update and
pricing information

Client breakfast series
Later this year

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