The right time

Stephen Purves asks if 2020 could be the bulk annuity market opportunity that smaller schemes have been waiting for?

2019 was a record-breaking year in the bulk annuity market, with transaction volumes reaching record-breaking heights of almost £44 billion in a market dominated by the so-called 'jumbo' transactions.

But what is not so widely reported is levels of activity for smaller transactions. Despite bulk annuity market volumes increasing overall, for transactions at the sub £100 million level, there has been a reduction in the number of transactions completed in recent years. This is highlighted by a doubling of the average deal size in the market – from c£150 million in 2018 to £300 million in 2019.

However, as we progress through 2020, there are some positives for smaller transactions and a greater market opportunity for transactions of this size has emerged.

Increased insurer capacity opening up the market

Many insurers have increased resource allocated to smaller transactions to help address the growing demand at the smaller end of the market. Specifically, many of the prominent insurers have increased team sizes and established more automated pricing engines to help fulfil demand. In addition, while 2020 is unlikely to surpass 2019 market volumes overall, with fewer large transactions currently in the market, this is helping to free up both people and capacity among insurers.

Current market volatility improving affordability

Recent widening of credit spreads has helped improved affordability levels for some schemes. Those which are well hedged and already de-risked have seen solvency funding improvements and an acceleration towards the 'end game' of buyout. Volatile market conditions have also helped smaller schemes to become more appealing to insurers concerned about executing on large trades on specific days; smaller transactions allow insurers to spread this market risk across multiple transactions and dealing dates.

Smaller schemes have also helped themselves by approaching the market using streamlined bidding processes and pre-negotiated contracts, such as Aon's Pathway. By approaching the market in this way, insurers know that they are unlikely to have to commit to holding their pricing over lengthy and protracted contracting periods and expose themselves to market volatility. Aon has completed transactions in less than two weeks by utilising its pre-negotiated contracts, which also ensure that trustees achieve robustly negotiated contractual terms.

Operational readiness enables transactions

The Pensions Regulator has helped many schemes improve the quality of member data, enabling them to become 'transaction ready' well in advance of buyout. While some in-house pensions departments have furloughed staff and are rightly focusing on paying members' pensions, smaller pension schemes typically outsource to third-party administrators, who are still able to provide sufficient bandwidth to support bulk annuity exercises.

Opportunities for the rest of 2020?

It is important for smaller schemes to approach insurers in the right way in order to maximise insurer engagement and to achieve competitive pricing. Now – more than ever – well-prepared schemes, adopting streamlined auction and contracting processes, will be prioritised over those proposing bespoke and people-intensive processes.

There are lots of positive signs for smaller pension schemes currently contemplating buy-in or buyout transactions. The outlook for the market is that there will be reduced overall volume in 2020, something likely to give rise to opportunities for smaller pension schemes not seen at this end of the market in recent years.

Now is the opportunity that smaller schemes have been waiting for in the bulk annuity market.

To request a copy of Aon's 2020 Risk Settlement research, please email talktous@aon.com.

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