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Risk Settlement: UK market update

September 2020

Headlines

- UK bulk annuity sales reached £12.7Bn in the first half of 2020, despite challenging market conditions resulting from the COVID-19 outbreak
- Market on course for c.£25Bn total in 2020
- 'Repeat buyers' have shown the importance of preparedness to react to opportunities

Bulk annuity market resilience

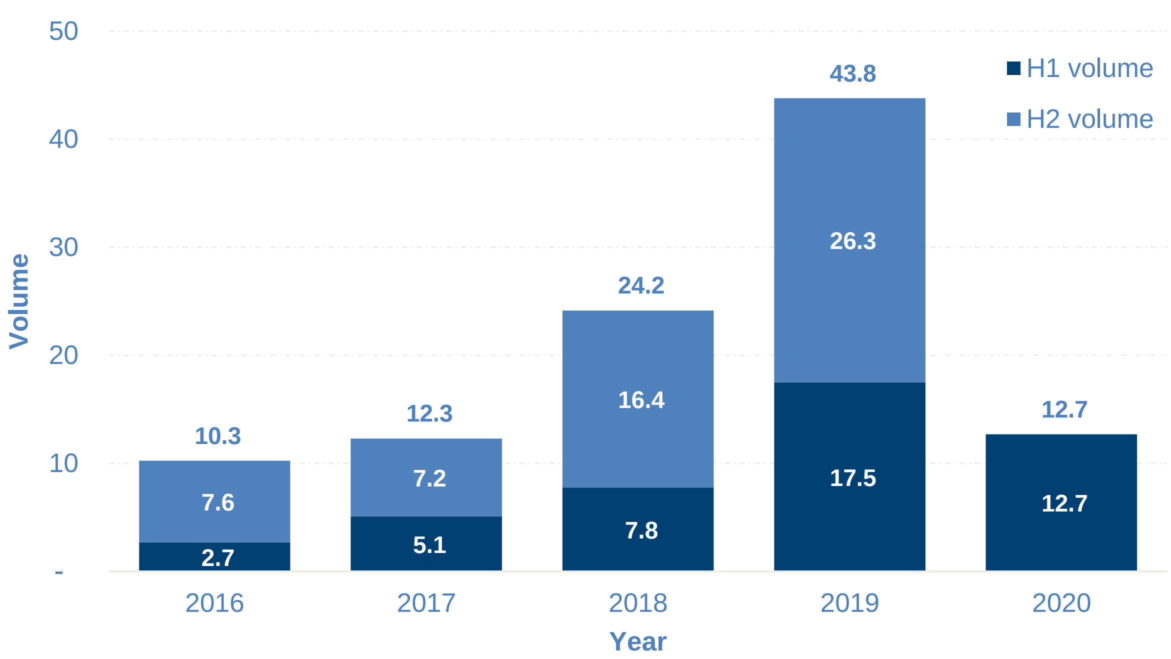
For the UK bulk annuity market, 2019 was a record-breaking year with £43.8Bn of new business written, driven by several multi-billion-pound transactions over the course of the year. Following this, it was expected that the market in 2020 would continue this busy trend, if not quite reaching the heights of the previous year.

That was before lockdown arose. However even with the unprecedented challenges brought by the COVID-19 pandemic, a substantial £12.7Bn of bulk annuity business across 77 transactions were written in the first six months of 2020.

This is already the fourth busiest year for the bulk annuity market and demonstrated its resilience in the face of the challenges presented by COVID-19. The chart below shows the breakdown of business placed each half year for recent years.

The greatest impact was made by the Co-op scheme, which placed £2.8Bn of pensioner buy-ins, across four transactions with Aviva and PIC, all of which were advised by Aon.

Bulk annuity business written with UK pension schemes (£Bn)



Excludes purchases of existing annuity books for other insurers.
Source: Aon's survey of insurers.

Summary of first half-year

The table below summarises bulk annuities secured by UK pension schemes over the first half of 2020 compared with the previous two half years.

So far in 2020, we've seen less of any one provider dominating the market and instead have market share being more evenly spread between the larger providers. This is largely due to pensioner-only transactions being more prevalent since lockdown began and creating strong competition amongst insurers.

PIC announced the largest half year out of the eight insurers, which included two deals in excess of £1Bn – for the Merchant Navy Officers Pension Fund and the Co-op (both 'repeat buyers').

Whilst Rothesay Life had a quiet start to 2020 compared to their dominance in 2019, they have announced two subsequent full scheme transactions, totalling £1.5Bn.

Aviva announced their largest half year to date in terms of volume of business written, which included their first external £1Bn transaction, for the Co-op.

Phoenix Life also announced their largest external deal to date – an £800M buy-in for Liverpool Victoria.

Bulk annuity providers	2020 H1		2019 H2		2019 H1	
	Value (£m)	Market share	Value (£m)	Market share	Value (£m)	Market share
PIC	3,499	28%	1,225	5%	5,969	34%
Legal & General	3,176	25%	4,009	15%	6,316	36%
Aviva	3,082	24%	2,738	10%	1,275	7%
Phoenix Life	1,080	8%	670	2%	1,560	9%
Rothesay Life	767	6%	15,875	60%	715	4%
Just Group	460	4%	719	3%	512	3%
Scottish Widows	410	3%	1,260	4%	770	5%
Canada Life	194	2%	49	1%	389	2%
TOTAL	**12,668**		**26,545**		**17,506**	

The table excludes back-book transactions. It reflects an Aon survey of the providers as at 30 June 2020.

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Deal numbers maintained

Over 2019, the market was dominated by so-called 'jumbo' transactions with 10 deals breaking the £1Bn mark.

Despite slightly lower volumes of business written so far in 2020, the number of deals completed in the market has remained similar. There were 77 transactions written as at 30 June 2020 which compares well with 150 deals written throughout 2019.

This has been partly because the pace of 'smaller' deals, particularly sub-£100M, has remained similar to 2019 levels, and there has actually been an increase in £100M-£500M deals, growing from 18% of the deals written in 2019 to 30% of the market in the first half of 2020.

Many of these are partial transactions for some of a scheme's pensioners, some are capturing pricing opportunities from higher credit spreads post lockdown before Government support (buying gilts and corporate debts in material quantities) calmed the market. These transactions will generally not have required additional corporate funding and so have been easier to arrange in the lock-down environment.

Number of deals completed	2020 H1	2019 H2	2019 H1
Aviva	26	35	19
Canada Life	2	3	5
Just Group	10	12	11
Legal & General	25	13	15
Phoenix Life	3	3	2
PIC	6	9	8
Rothesay Life	4	6	4
Scottish Widows	1	3	2
TOTAL	**77**	**84**	**66**

The table excludes back-book transactions. It reflects an Aon survey of the providers as at 30 June 2020

Longevity swaps

Over the first half of 2020, three longevity swaps for UK pension schemes were publicly announced. They were a £1Bn swap for the Willis Pension Scheme, £1.4Bn for the UBS Pension Scheme, and a £10Bn swap for Lloyd's Banking Group – one of the largest publicised swaps to date.

Several high-profile longevity swaps are being planned and may complete over the rest of 2020 and early 2021 as large schemes seek to benefit from attractive pricing available in the reinsurance market.

We have seen several schemes successfully convert longevity swaps into bulk annuities in recent times also.

The conversion of a swap into an annuity arose for Phoenix Life in December 2016 when they converted a longevity swap for their own pension scheme (advised by Aon) into a £1.2Bn buyout.

This has since become a trend, seen in the market's largest transaction to date (Aon advised) for Rolls-Royce in 2019, and more recently for the Merchant Navy Officers Pension Scheme and for Liverpool Victoria in 2020.

Longevity swaps may become increasingly popular for larger schemes to use as a stepping stone to buyout in the future, capturing attractive pricing opportunities while de-risking in stages.

Repeat buyers taking their chances

The market volatility due to the COVID-19 pandemic saw a number of schemes reconsider market approaches or temporarily suspend transactions. There was, however, a strong trend of 'repeat buyers' driving market volumes during these difficult conditions – they represent over half of the disclosed 2020 market. This trend is continuing in deals being considered for this autumn.

Transactions such as the Co-op's four deals (totalling £2.8Bn) and the Merchant Navy Officers Pension Fund's seventh buy-in were among the schemes that took advantage of market opportunities to secure their next bulk annuity.

This trend illustrates how establishing ways of integrating an annuity into your scheme's operation makes it considerably easier to plan the next one. Schemes that have done so have been able to capture market opportunities and their working procedures have proved robust enough to deal with unpredictable markets and remote working.

Many trust boards find that, while the first transaction requires plenty of time upfront to engage with contacts at the sponsoring employer, decisions can quickly be jointly made with the employer in subsequent tranches – even at times like these, when companies have so many conflicting demands on their time.

The repeat buyer trend has reinforced the necessity for schemes to plan ahead in order to move quickly and to be able to execute as opportunities arise. Repeat buyers develop nimble governance, enabling them to make swift and effective decisions. In a busy market, particularly where resource has been stretched by COVID-19 challenges, insurers have looked for transaction certainty - so a track record of successful deals also helps schemes stand out.

Other schemes can bridge the gap in grabbing market attention. However, this requires due preparation and a clear proposition, as well as strong information on market activity formulated with an experienced advisory team.

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