UK Risk Settlement Bulletin

March 2019

Record breaking 2018

2018 was always expected to be a record breaking year – Aon had predicted over £30bn of risk settlement activity when the year started. These expectations were surpassed with over £35bn of business being placed, driven by several factors:

- Exceptional pricing in the annuity market, caused by better illiquid asset sourcing capabilities and competition;
- Strong capacity from the global reinsurance market, particularly for longevity risk;
- Improved funding, with more pension schemes within touching distance of full funding.

Pension schemes placed a record £24bn of new bulk annuity business in 2018 (there was a market-high £12bn back-book transaction from Prudential to Rothesay Life). This is shown on the chart below, versus equivalent figures for past years.

Most insurers saw a dramatic increase on the amount of annuity business placed in 2017. PIC, L&G, Aviva, Scottish Widows and Canada Life wrote their *largest volume* of bulk annuities to date. Phoenix Life wrote its first external bulk annuities.

And most insurers wrote their *largest deal* to date, some several times over, within 2018.

The bulk annuity market shows no sign of slowing down in 2019. Pricing is still competitive, and all signs point to it continuing to be so throughout the year. Aon is predicting another year where risk settlement activity tops the £30bn barrier.

Business placed in the UK Bulk Annuity Market

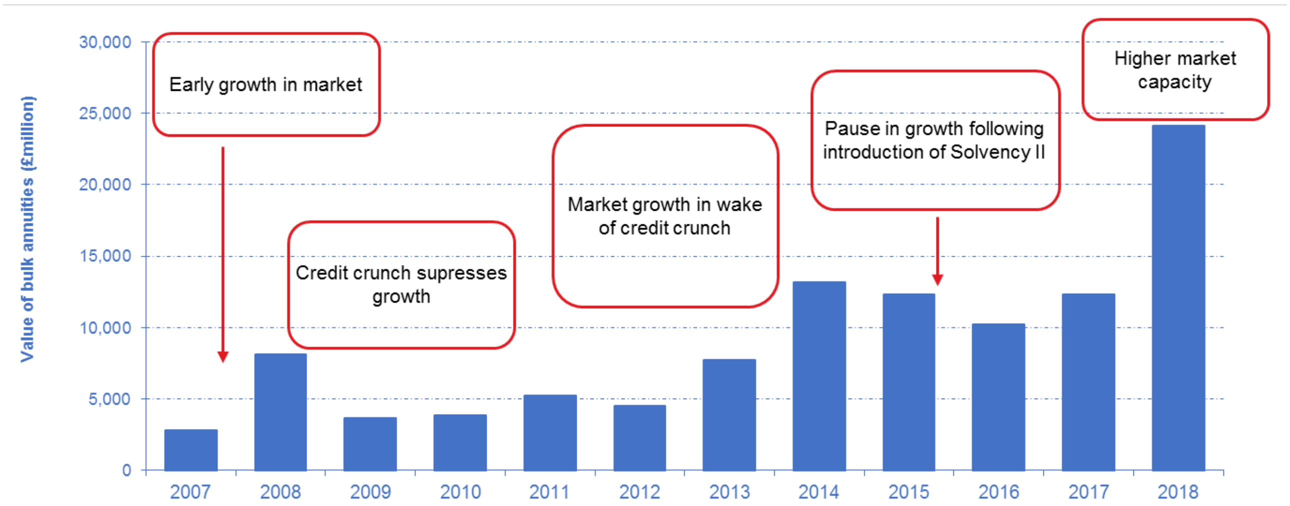


Chart sourced from Aon's Risk Settlement Group Due Diligence team

Insurer bulk annuity cost

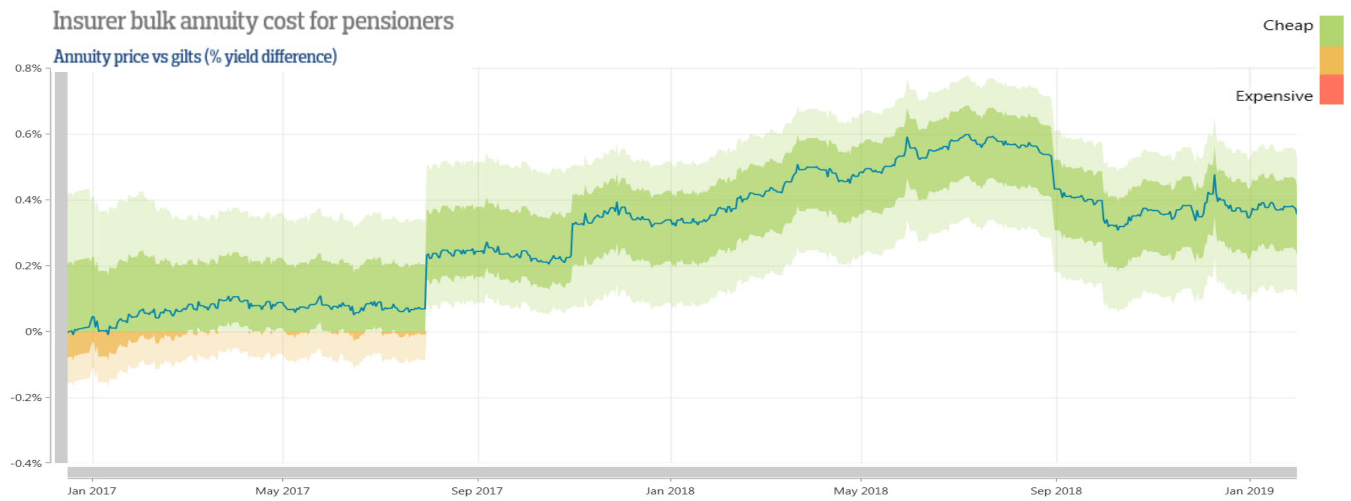
The chart below shows the implied return on a pensioner buy-in relative to gilts.

Annuity pricing has been fairly stable, relative to gilts, at the end of 2018 and for the first months of 2019. The movements seen here have largely been driven by changes in credit spreads and illiquid asset opportunities for insurers.

Despite a slight worsening in pricing since summer 2018, market activity has not slowed. Pricing remains below typical long-term levels. There remain significant opportunities for smaller schemes, with Aon advising on eight transactions of £30M or less in 2018.

Indeed, the first quarter – normally a quiet period – of 2019 could see as much as £5Bn of deals (transactions for the Co-op and for Pearson have already been disclosed). Other auctions are due to complete shortly, with several £1Bn+ buyout deals being priced for transactions later in the year.

Maximising insurer engagement is even more important in a busy market. Insurers will be more selective about the auctions in which they participate, favouring the best-prepared schemes with clear timelines and decision-making criteria, using established broking platforms such as Aon's *Compass* service.



How to read this chart

- This shows the return from a bulk annuity for pensioners, relative to the yield on a comparable gilt portfolio, assuming insurer-type assumptions beyond the discount rate.
- Annuities shown as 'cheap' if giving a better return than gilts.
- This comparison ignores the material value from annuities giving a better hedge than gilts, including longevity cover.
- Expected pricing for a typical scheme is shown by the blue line.
- Prices typically fall in the darker shading, and some auctions fall in the lighter shading. Pricing outside the shading typically represents an unusual liability profile.

Chart sourced from Aon's Risk Analyzer

Contact Information

John Baines
+44 (0)121 262 6944
john.baines@aon.com

Martin Bird
+44 (0)20 7086 9027
martin.bird@aon.com

Hannah Cook
+44 (0)20 7086 8115
hannah.x.cook@aon.com

Phil Curtis
+44 (0)20 7522 8276
phil.curtis@aon.com

Mike Edwards
+44 (0)20 7086 0437
mike.edwards@aon.com

Karen Gainsford
+44 (0)20 7086 9071
karen.gainsford@aon.com

Tim Gordon
+44 (0)795 632 4415
tim.gordon@aon.com

Dominic Grimley
+44 (0)121 262 5094
dominic.grimley@aon.com

Ben Harris
+44 (0)121 230 6828
ben.harris.2@aon.com

Tiziana Perrella
+44 (0)161 687 2014
tiziana.perrella@aon.com

Tom Scott
+44 (0)121 262 5073
thomas.scott@aon.com

Michael Walker
+44 (0)1372 733027
michael.walker.3@aon.com

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