



# UK Risk Settlement Market Update

March 2021

## Headlines

- Record year for the risk settlement market in 2020 with transactions in excess of £55bn
- Increased number of smaller to mid-sized deals in 2020

## Records fall as schemes de-risk

For the UK risk settlement market, 2020 was another record-breaking year with over £55bn of bulk annuities and longevity swaps written.

The bulk annuity market recorded total volumes last year of £32bn despite the unprecedented challenges presented by the COVID-19 pandemic.

2019 had been a record year in the bulk annuity market with over £43bn of transactions and while 2020 did not surpass this, the market demonstrated resilience, leading to 2020 being the second busiest year ever.

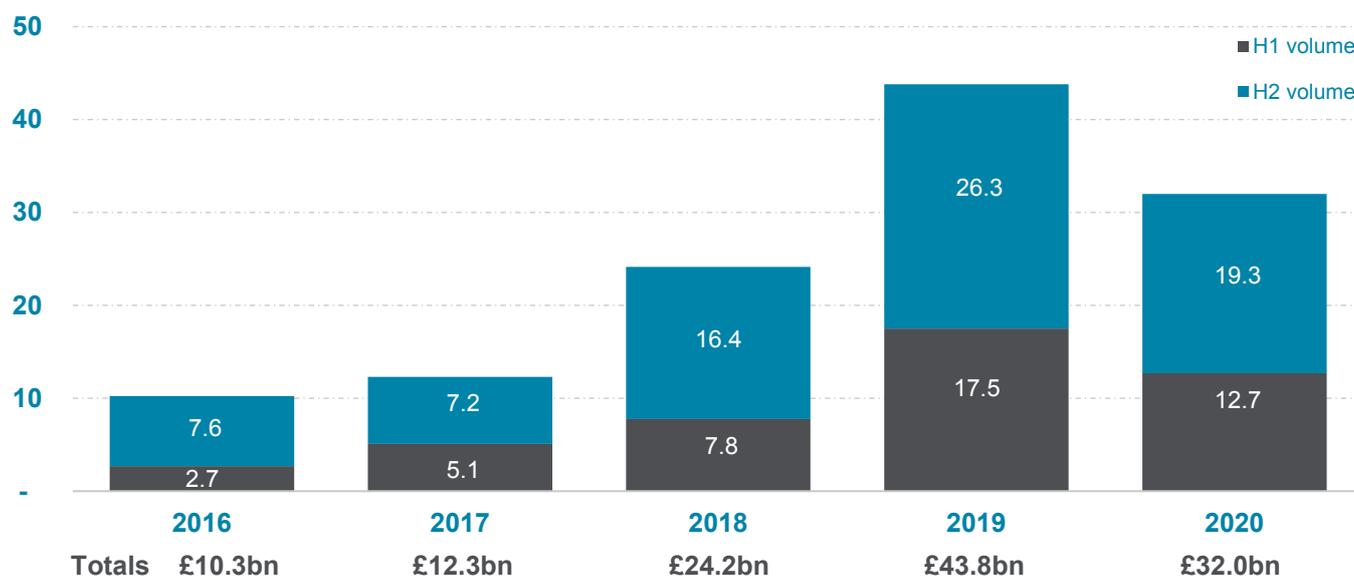
Meanwhile, over £24bn of longevity swaps were agreed by UK pension schemes – see more on this segment of the market on page 4.

The chart below shows the volume of bulk annuities written over the last five years split by half year. The rapid growth in the market is clear and suggests that capacity constraints will become more important over the next few years. Access to suitable backing assets for annuity books in sufficient volume may become a key factor.

The £32bn of business was written across 142 individual transactions, a slight fall from the 150 deals in 2019. The marked fall in the total volume written relative to the modest fall in the number of individual deals, is due to the number of multi-billion-pound buyouts not being repeated in 2020.

In 2020, there was a greater prevalence of smaller-pensioner only transactions – see page 3 for more detail on the patterns of deals over 2020.

## Bulk annuity volumes split by half year (£bn)



Source: Aon's Due Diligence team



## Bulk annuity analysis

The table below summarises bulk annuities secured by UK pension schemes over 2020 and 2019 split by insurers.

Similar to 2019, Legal & General and Rothesay Life led the way with each of these providers writing over £7bn for the second year running. The former edged in front in 2020 with almost a quarter of the whole market.

Aviva built on recent growth in annual volumes and announced its busiest ever year for bulk annuities with nearly £6bn of deals transacted over 2020 - nearly 50% more than in 2019. Most notably, Aviva wrote a greater proportion of larger deals than in the past, shown by a fall in number of deals but a dramatic growth in volume.

Phoenix also had a record year in 2020 with £2.5bn of premiums written across seven transactions. This emphasises that Phoenix are seeking to grow bulk annuity volumes as a key business line.

PIC wrote a significant part of the market, although slightly lower than in recent years, which may be a deliberate stance given the difficult environment at times for purchasing assets and stabilising solvency in lockdown. This environment had a more marked impact on Scottish Widows for 2020.

Just Group and Canada Life maintained similar, lower volumes compared with most peers. However, they are still committed to this market and provide a level of depth and competition in the wider marketplace.

### Bulk annuity volumes split by insurer

Insurers	2020			2019		
	Deals	Volume (£m)	Market Share	Deals	Volume (£m)	Market Share
Legal & General	44	7,593	24%	28	10,325	24%
Rothesay Life	12	7,077	22%	10	16,343	37%
Aviva	40	5,955	19%	54	4,013	9%
PIC	7	5,649	17%	17	7,194	16%
Phoenix	7	2,550	8%	5	2,230	5%
Just Group	23	1,508	5%	23	1,231	3%
Scottish Widows	4	957	3%	5	2,030	5%
Canada Life	5	646	2%	8	438	1%
<b>Total</b>	<b>142</b>	<b>31,935</b>		<b>150</b>	<b>43,804</b>	

Source: Aon's survey of insurers



## Transaction sizes

The table below shows the number of bulk annuity transactions written in the market over 2020, split by the size of each individual deal.

As usual, most deals are small to mid-sized with over 50% of deals transacted being £100m or less. These deals do not tend to make the headlines, but even in years of record volumes, there are many small schemes successfully navigating the bulk annuity market.

Many of the £100m-£500m deals were pensioner-only transactions requiring minimal, if any, extra funding from the sponsor. This was a driving force in 2020 with many sponsors keen to delay projects that required additional funding while the pandemic and economic uncertainty continued.

We expect this trend will change post-lockdown, with - as witnessed in 2019 - a resurgence in full scheme buyouts as sponsoring employers put greater focus into key de-risking decisions

In 2019, there were 10 transactions of £1bn+, amounting to over £28bn in total. In 2020, only £11bn of business was made up by the seven deals over £1bn.

The fall in the multi-billion deals can be attributed to the fact that deals needing minimal sponsor funding or decision-making was the theme of 2020.

Ultimately, it is clear to see that the market remains open to schemes of all sizes, but the level of demand even in a challenged year does mean that schemes have to stand out to prove they are 'transaction ready'.

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### Number of transactions written by size in 2019-2020

Transaction size	2020		2019	
	Deals	Volume	Deals	Volume
Less than £100m	77	£2.2bn	104	£2.4bn
£100m - £500m	45	£9.9bn	27	£5.9bn
£500m - £1bn	13	£8.8bn	9	£7.1bn
More than £1bn	7	£11bn	10	£28.4bn
<b>Total</b>	<b>142</b>	<b>£31.9bn</b>	<b>150</b>	<b>£43.8bn</b>

Source: Aon's Due Diligence team



## Longevity market

The COVID-19 pandemic led to a significant number of additional deaths in 2020 and early 2021. While the ultimate impact of the pandemic remains uncertain, overall views on mortality improvements in the long term have not changed significantly.

Longevity risk is still a key source of concern for pension schemes. 2020 witnessed an increase in demand to hedge this risk despite the uncertainty around the impact of COVID-19 on future mortality rates.

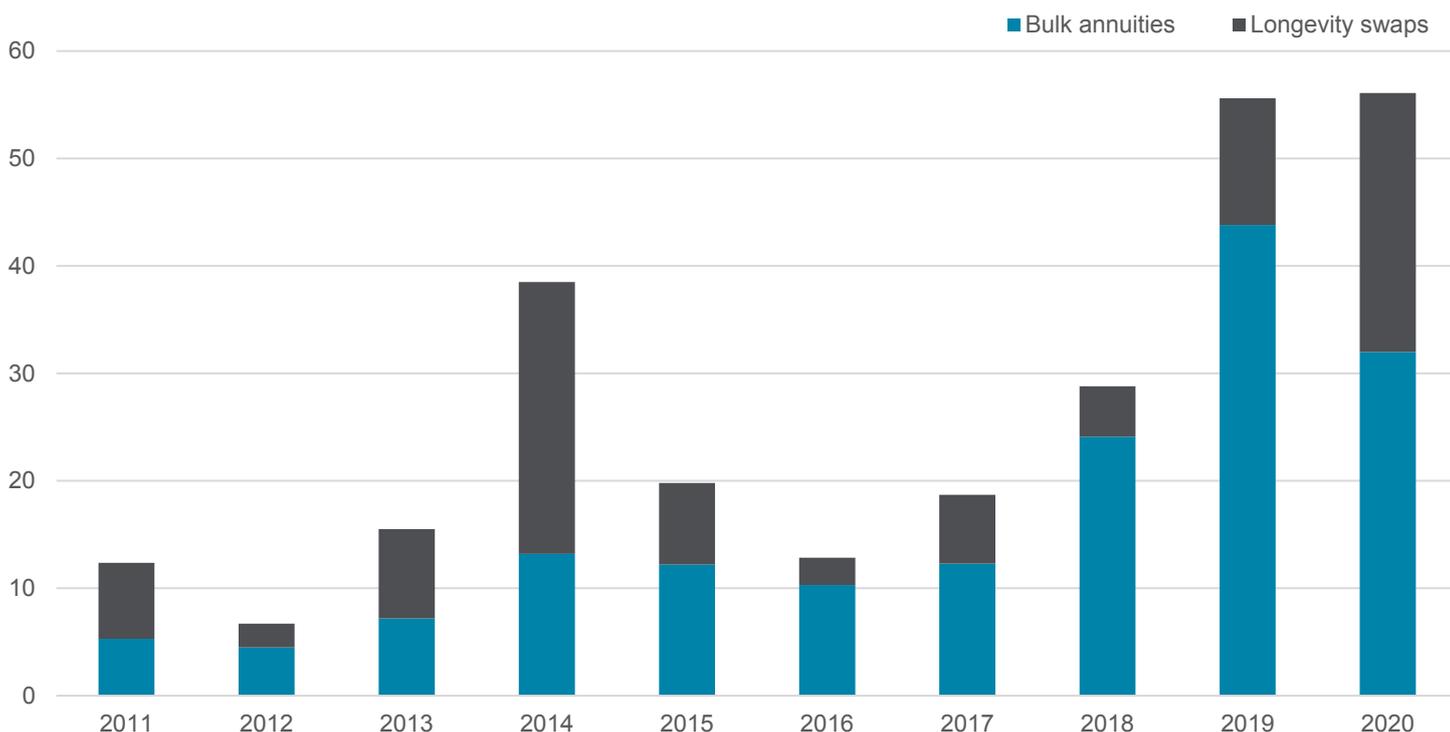
The longevity swap market, like the bulk annuity market, had a strong year, with over £24bn of publicly announced deals. This compares with £11.8bn of publicly announced deals in 2019 and £4.7bn in 2018.

The graph below shows the volume of longevity swap and bulk annuity transactions written over the last 10 years.

We expect 2021 to be another busy year for the longevity swap market with schemes looking to hedge longevity risk.

Already in 2021, the AXA UK Pension Scheme has agreed a £3bn longevity swap with Hannover Re. This deal was unusual in that it included a substantial number of deferred members who are yet to be receiving a pension from the scheme.

Known volumes of risk settlement transactions 2011-2020 (£bn)



Source: Aon's own transactions and publicly announced deals



# Contact Information

## John Baines

Partner

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

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## Dave Barratt

Senior Consultant

+44 (0)1727 888 265  
dave.barratt@aon.com

---

## Martin Bird

Head of Risk Settlement

+44 (0)121 335 3727  
martin.bird@aon.com

---

## Hannah Brinton

Associate Partner

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

---

## Andrew Cooper

Senior Consultant

+44 (0)20 7086 9057  
andrew.cooper.2@aon.com

---

## Phil Curtis

Senior Consultant

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

---

## Mike Edwards

Partner

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

---

## Karen Gainsford

Associate Partner

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

---

## Tim Gordon

Partner

+44 (0)7956 324415  
tim.gordon@aon.com

---

## Dominic Grimley

Associate Partner

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

---

## Ben Harris

Senior Consultant

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

---

## Joe Hathaway

Senior Consultant

+44 (0)121 262 6986  
joe.hathaway@aon.com

---

## Stephen Purves

Partner

+44 (0)113 394 3510  
stephen.purves@aon.com

---

## Tom Scott

Associate Partner

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

---

## Michael Walker

Associate Partner

+44 (0)1372 733 027  
michael.walker.3@aon.com

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