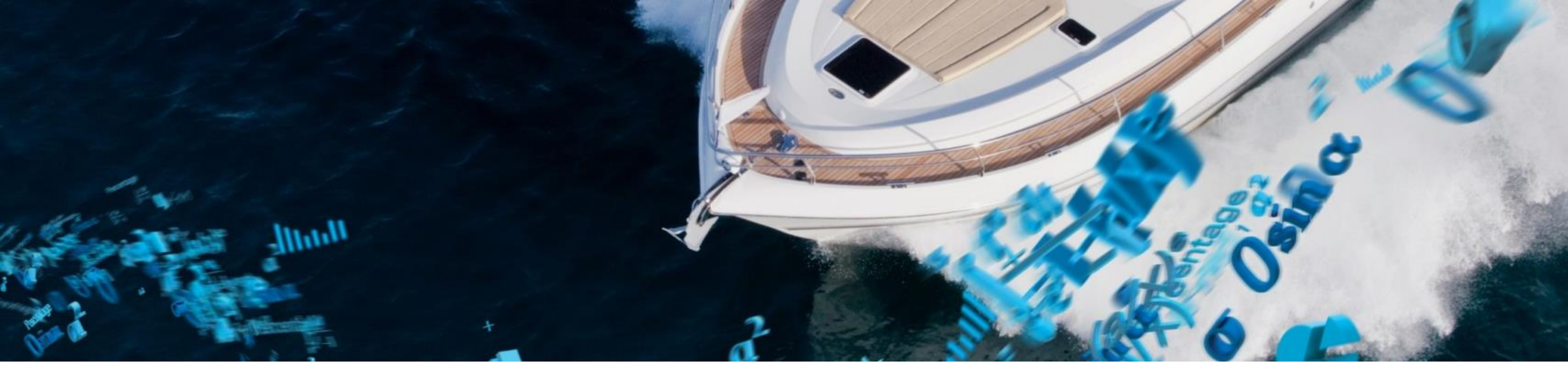


Risk Settlement: UK market update

March 2019

Headlines

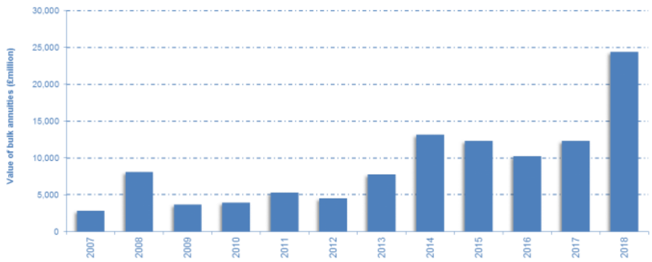
- Bulk annuity market doubled in 2018
- Aon writes 16 annuities over £100m in 2018
- We predict another record year for 2019

Bulk annuities – a record breaking year

2018 was always expected to be a record breaking year, with Aon predicting 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 market, driven by better illiquid asset sourcing capabilities and competition;
- Strong capacity from the global reinsurance market, which acts as a key support to capacity in the annuity market nowadays;
- Improved scheme funding, with considerably more schemes finding themselves within touching distance of settling their liabilities.

Trust-based pension schemes placed over £24bn of new bulk annuities, compared with a 2017 total of £12.3bn and a previous annual peak of £13.2bn in 2014.



But this excludes the largest annuity transaction to date as this was a "back-book" purchase of annuities from another insurance company: Rothesay Life's £12bn acquisition of the initial bloc of Prudential annuities brought to market following their withdrawal from selling annuities. This continued a consolidation trend that had previously peaked in 2016, when Rothesay Life and L&G took on £9bn of Aegon annuities between themselves.

Outside of annuity sales, there was further consolidation:

- Phoenix Life completed a dramatic corporate acquisition with the purchase of Standard Life Assurance, more than doubling their funds under management to £240bn. The policies taken on included approximately £15bn of individual annuities;
- Canada Life further consolidated the individual annuity and equity release markets with their purchase of Retirement Advantage including its £2bn annuity book.

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

And six of the eight insurers wrote their largest external deal to date, some several times over, within 2018.

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Breakdown of bulk annuities by provider

The table below summarises bulk annuities secured by pension schemes over 2018 compared with 2017.

As in previous years, PIC and Legal & General continue to lead on market volume, but at a much higher level than previously, making it hard for several other providers to maintain market share despite demonstrating new large deal capabilities.

With all bidders now having firmly established themselves in the market, pricing is expected to remain competitive.

2018 rank	Bulk annuity providers	2018		2017	
		Value (£m)	Market share	Value (£m)	Market share
1	Legal & General	8,351	35%	3,405	28%
2	PIC	7,138	30%	3,704	30%
3	Aviva	2,596	11%	2,045	17%
4	Scottish Widows	1,680	7%	645	5%
5	Canada Life	1,333	5%	544	4%
6	Just Group	1,314	5%	998	8%
7	Rothesay Life	925	4%	960	8%
8	Phoenix	805	3%	-	-
	TOTAL	**24,142**		**12,301**	

The table excludes back-book transactions. It reflects an Aon survey of the providers.

Does size matter?

2018's new business was dominated by larger transactions. Legal & General secured the largest ever annuity for a pension scheme (£4.4bn deal with British Airways), with three other £1bn+ annuities placed with PIC and Legal & General. There were no £1bn+ deals in 2017.

Largest publicised 2018 deals

Size	Insurer	Business	Type
£4,400m	L&G	BA	Pensioner annuity
£2,400m	L&G	Nortel	Full scheme annuity
£2,000m	Zurich	National Grid	Longevity swap
£1,515m	PIC	Rentokil	Full scheme annuity
£1,300m	PIC	Siemens	Pensioner annuity
£925m	Aviva	M&S	Pensioner annuity
£880m	SW	Littlewoods	Pensioner annuity
£850m	PIC	PA Consulting	Full scheme annuity
£770m	PIC	BHS	Full scheme annuity

The Aon settlement team was lead adviser on 16 transactions of over £100M in 2018, a market record. Advance preparation, close monitoring of the market and flexibility over the timing and manner of deal completion were key components of this rate of conversion.

While the large deals may catch the eye, there was still a market for all schemes. Four insurers are regularly writing smaller transactions, with some deals attracting pricing that is surprisingly similar to that attained by the largest cases.

However, for sub £30M transactions we are increasingly seeing different behaviours from insurers to manage resources deployed on auctions. We advised on eight transactions of £30M or less in 2018.

In order to help more schemes access the market, Aon has worked with insurers to develop our new 'Streamlined Compass' approach for smaller transactions, designed to maximise insurer engagement and deliver the best possible pricing.

Longevity swaps

The longevity swap market was highly active in providing the back-bone to support the bulk annuities placed over the year for insurer-insurer transactions.

For direct transactions with schemes, the £2bn transaction that Aon arranged for National Grid, with cover from Zurich was the year's landmark transaction. We had previously agreed with the client to hold back the deal while seeking longevity market pricing that better reflected prevailing trends of more modest growth in life expectancy. The deal went ahead, following a market price correction, and this keener longevity pricing helped drive the rest of 2018's settlement transactions.

Otherwise, only two further longevity swap purchases for pension schemes have been disclosed. However there are now a wide range of structures available to schemes.

2019 – an increasingly competitive market

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.

The first quarter alone – normally a comparatively quiet period – could see as much as £5bn of new bulk annuities, with transactions disclosed for the Co-op and Pearson, and several other auctions coming to completion. A number of £1bn+ full scheme buy-outs are being priced for later transactions.

A busy market is not without its challenges. There is more and more competition for some of the illiquid assets that are helping to support annuity pricing, such as infrastructure debt. These assets have become increasingly popular for pension schemes, too, giving stable long-term income.

Insurers will be more selective about the auctions that they participate in this year, favouring the best-prepared schemes with clear timelines and decision-making criteria, using established broking platforms such as our *Compass* service.

Contact information

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

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

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

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

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

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

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

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

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

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