

Risk Settlement: UK market update

August 2019

Headlines

- Record breaking start to 2019
- Several multi-billion deals in progress
- Pricing remains highly competitive

Bulk annuities – records continue to be broken

With almost £18bn of bulk annuities written, the first half of 2019 has seen the highest ever amount of bulk annuity deals completed by UK pension schemes in a single half year.

Aon predicted that 2019 would be another record breaking year. With several large undisclosed deals set to complete later in 2019, it is expected that over £35bn of UK bulk annuities will be concluded by the end of the year – easily a record level.

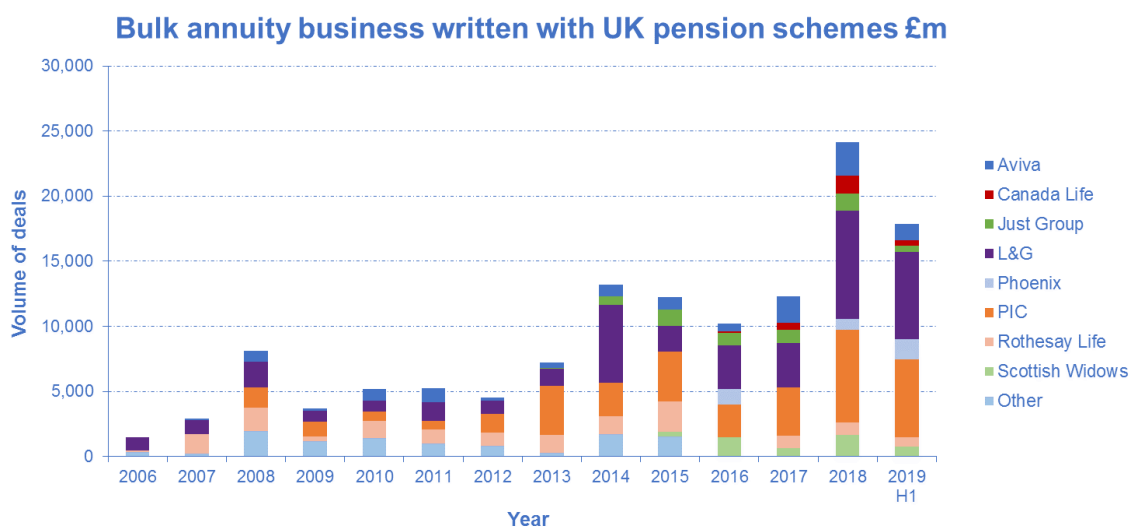
This continues the trend from 2018 where approximately £25bn of bulk annuity business was placed (excluding Rothesay Life's £12bn acquisition of a Prudential back-book). This itself was a doubling of previous levels.

The continued momentum that is expanding the market is driven by several factors:

- Historically attractive pricing in the market, driven by healthy competition, better illiquid asset sourcing capabilities, and a strong supply of capital in the market;
- 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.

Despite the increase in business written, Aon continues to see strong pricing opportunities for schemes that are transaction ready.

The graph below shows the number of bulk annuity transactions for each full year and for the first half of 2019. It splits the total business placed by each insurer in the market. It demonstrates that L&G and PIC continue to be the market leaders.



Source: Data collected through Aon's survey of providers

Breakdown of bulk annuities by provider

The table below summarises bulk annuities secured by UK pension schemes over the first half of 2019 compared with the previous two half years.

PIC announced their largest single half year ever and Legal & General continued at a similar level to the second half of 2018.

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

Bulk annuity providers	2019 H1		2018 H2		2018 H1	
	Value (£m)	Market share	Value (£m)	Market share	Value (£m)	Market share
Legal & General	6,677	38%	7,844	48%	507	7%
PIC	5,969	33%	3,881	24%	3,257	42%
Phoenix	1,560	9%	330	2%	475	6%
Aviva	1,275	7%	1,057	6%	1,539	20%
Scottish Widows	770	4%	580	3%	1,100	14%
Rothsay Life	715	4%	755	5%	170	2%
Just Group	512	3%	596	4%	718	9%
Canada Life	389	2%	1,333	8%	-	0%
TOTAL	17,867		16,376		7,766	

The table excludes back-book transactions. It reflects an Aon survey of the providers as at 30 June 2019.

In practice, the relative market shares will look markedly different by the year end, with PIC and Legal & General being earlier than others to secure some of the biggest deals of 2019, but with more to be announced in the coming months.

2019 – an increasingly competitive market

The bulk annuity market is set for a strong second half of the year as pricing opportunities and scheme demand remain positive. This trend is expected to continue into 2020 with strong capacity in the reinsurance market and continued capital availability for insurers.

However, a busy market is not without its challenges. There is greater 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.

It is expected that insurers will be more selective about the auctions in which they participate later this year, as they are likely to become stretched for resource and capital due to the strong pipeline of deals already due to complete later this year.

Insurers will favour the best-prepared schemes with clear timelines and decision-making criteria, using established broking platforms such as our *Compass* service.

Record breaking deals

In the first half of 2019, Aon advised on the largest ever bulk annuity transaction: a £4.6bn buy out for the Rolls-Royce pension scheme completed with Legal & General. This innovative transaction included the conversion of an existing longevity swap.

We advised on the first such conversion for the PGL Pension Scheme in 2016, and advised on a follow-on £1.1bn annuity for the scheme in March 2019, another of the period's key deals, with Phoenix Life.

Other notable publicised deals in the half-year include a full scheme transaction for Dresdner (£0.9bn, with PIC) and substantial pensioner transactions for BAT (£3.4bn, with PIC), Qinetiq (£0.7bn, with Scottish Widows) and Marks & Spencer (£0.9bn and £0.5bn, with PIC and Phoenix Life respectively, following previous annuities in 2018).

We are currently concluding a number of multi-billion transactions that are due to be completed in the second half of 2019. Aon expects that this will lead to more than £35bn of UK bulk annuities being placed this year.

The table below shows the top 10 largest UK bulk annuity deals to date.

Largest publicised UK deals				
Size	Insurer	Business	Type	Year
£4.6bn	L&G	Rolls Royce	Bespoke pensioner transaction	2019
£4.4bn	L&G	British Airways	Pensioner annuity	2018
£3.4bn	PIC	British American Tobacco	Pensioner annuity	2019
£3.0bn	L&G	ICI	Pensioner annuity	2014
£2.5bn	L&G	TRW	Bespoke pensioner transaction	2014
£2.4bn	PIC	Philips	Scheme Buy out	2015
£2.4bn	L&G	Nortel	Scheme Buy out	2018
£1.6bn	PIC	Total Group	Pensioner annuity	2014
£1.6bn	Rothsay	CAA	Pensioner annuity	2015
£1.5bn	PIC	Rentokil	Scheme Buy out	2018

Source: Aon's Bulk Annuity database

While the large deals may catch the eye, there are still opportunities for smaller schemes to attract competitive pricing. For sub £30m transactions, insurers and schemes are tailoring their approach to make these deals as efficient and manageable as possible.

In many cases we are seeing smaller schemes achieve comparable yields to the largest transactions.

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 first half of 2019 saw no publicised longevity swaps for UK pension schemes.

In August 2019, HSBC announced an innovative longevity swap that transferred the longevity risk of around £7bn of liabilities to Prudential Insurance Company of America (PICA).

The deal used a captive solution with an HSBC-owned insurer in Bermuda, with PICA then reinsuring the transaction.

Given the attractive longevity pricing available, we are expecting several large longevity swaps to be transacted in the second half of 2019, and early in 2020. As with the Rolls-Royce transaction, schemes can use a longevity swap as a stepping stone to securing an annuity in the future.

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*Note: The chart illustrated on the first page should be read and interpreted based on the following notes:

- The chart relates to bulk annuity transactions for UK pensions schemes.
- Just Group's figures include both the pre-merger companies of Just Retirement and Partnership.
- Companies that have left the market or have been acquired by other providers, and are no longer actively quoting, fall under "Other".
- The figures exclude any back-book transactions that have occurred to pass liabilities between insurance companies.

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