

The continuing evolution of the pension buyout market

November 2013



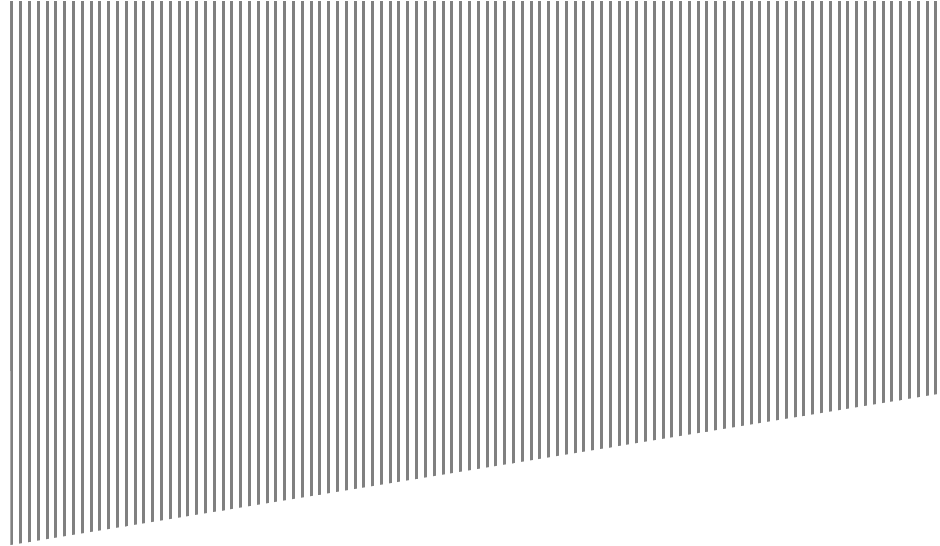
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Agenda

- ▶ The continuing evolution of the pension buyout market
- ▶ Our experiences and lessons learnt
- ▶ The future

The continuing evolution of the pension buyout market



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Market demand

- ▶ Pensions Act 2004
 - ▶ Established the powerful Pensions Regulator (tPR) to protect DB scheme benefits
 - ▶ Tightened up disclosure under FRS17
 - ▶ Introduced scheme specific funding requiring disclosure of assumptions
 - ▶ Introduced the requirement for 10 year funding plans to restore scheme solvency
 - ▶ Established the Pension Protection Fund (PPF)
- ▶ Concern over volatility and investment and interest rate risks
- ▶ Concern about improving longevity
- ▶ Concern from trustees about the robustness of the corporate covenant
- ▶ Disproportionate amount of Board / management time spent on pensions
- ▶ Defined benefit pension schemes not seen as relevant to current employee base

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A crowded market

Incumbents	Legal & General Prudential	
Established insurers	Aegon All Aviva	MetLife Swiss Re
Investment banks	Citigroup Goldman Sachs (Rothsay) Lehman Brothers	Nomura UBS
New insurers	Lucida Paternoster	Pension Insurance Corporation Synesis
New models	Aleva Brighton Rock	Pensions First Tactica

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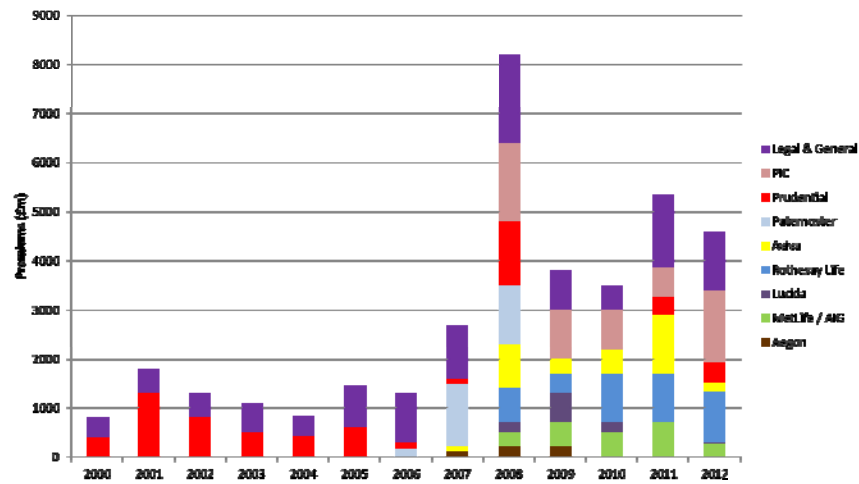
A crowded and evolving market

Incumbents	Legal & General Prudential	
Established insurers	Aegon (withdrawn) All (acquired by MetLife) Aviva (withdrawn for large cases)	MetLife (uncertain future) Swiss Re (focussed on reinsurance)
Investment banks	Citigroup (withdrawn) Goldman Sachs (Rothsay) Lehman Brothers (Insolvent)	Nomura (withdrawn) UBS (withdrawn)
New insurers	Lucida (acquired by L&G) Paternoster (acquired by Rothsay)	Pension Insurance Corporation Synesis (acquired by PIC)
New models	Aleva (withdrawn) Brighton Rock (slow progress)	Pensions First (refocussed) Tactica (closed)
Impaired annuities	Just Retirement Partnership	

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New business volumes – buyouts / buyins (2000 to 2012)



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Product innovation

Product	Comments
Traditional buyout	Individual policies bought
Partial buyout / buy-in	Remains an asset of the scheme. Can be a proportion of an individual's benefits
Structured buyout / buy-in	Premium structured as a series of payments
Longevity only	Swap varying cashflows for fixed (may be derivative based)
DIY buy-in	Swaps and liability driven investment to mimic buy-in
Profit sharing	e.g. If there are more deaths than expected
Day one transfer	Scheme transfers to insurer on day one and simultaneous buy-in
Other risks	e.g. Data, GMP equalisation, missing beneficiaries
Liability management (not insurance)	Enhanced transfer values, pension increase swaps

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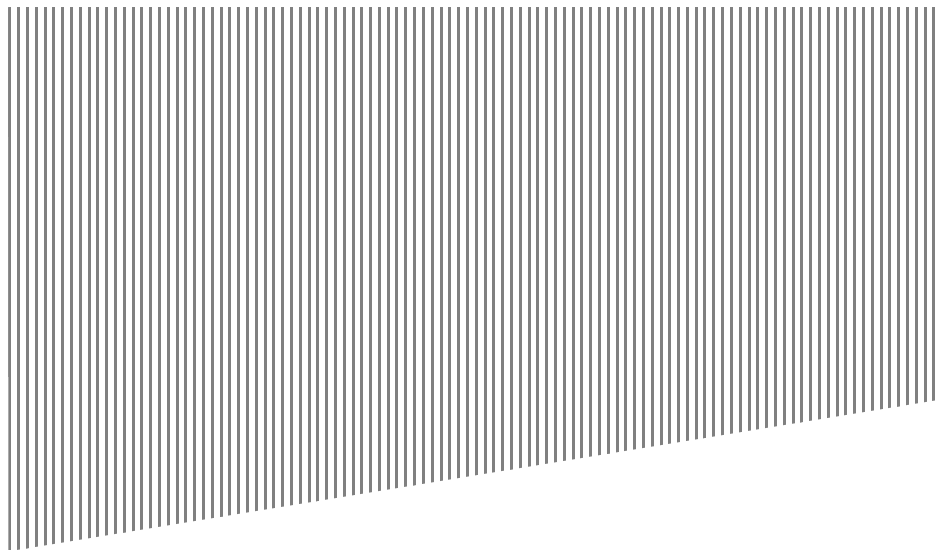
Product innovation – longevity swap sales

Year	Insurer	Pension scheme	Value (£bn)
2009	Credit Suisse	Babcock International	1.2
	Rothesay Life	RSA	1.9
	Swiss Re	Royal County Berkshire	1.0
2010	Abbey Life	BMW	3.0
	Rothesay Life	British Airways (phase 1)	1.3
2011	JP Morgan	Pall	0.1
	Credit Suisse	ITV	1.7
	Deutsche Bank	Rolls Royce	3.0
	Legal & General	Pilkington	1.0
	Rothesay Life	British Airways (phase 2)	1.3
2012	Swiss Re	Akzo Nobel	1.4
	Swiss Re	LV=	0.8
2013	Legal & General	British Aerospace	3.2
	Deutsche Bank	Bentley	0.4

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Our experiences and lessons learnt



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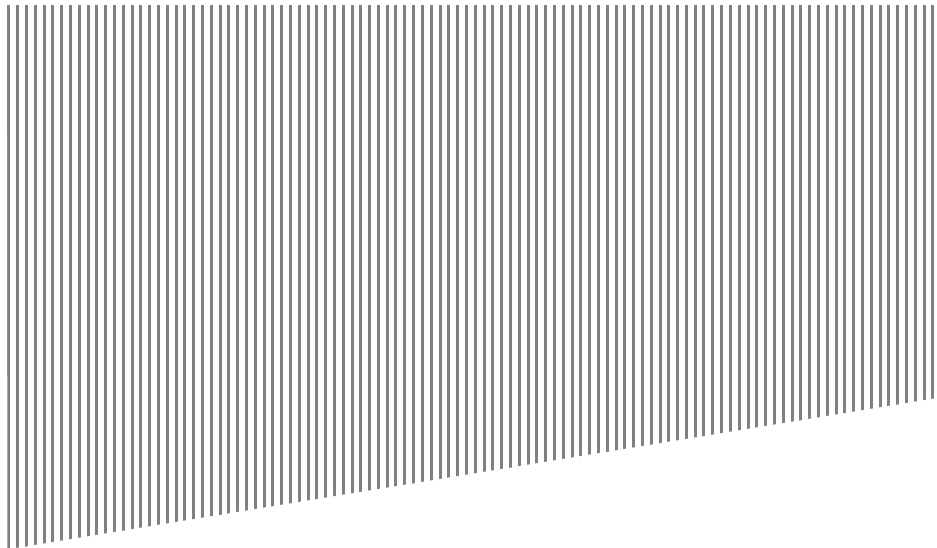
Our experiences and lessons learnt

- ▶ Jumping in with both feet
- ▶ Pros and cons of one or multiple capital providers
- ▶ Innovation and “can do” approach
- ▶ The role of the regulator

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The future



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The future

- ▶ Capacity constraints?
- ▶ Emergence of a liquid market for longevity trading
- ▶ New entrants
- ▶ More consolidation
- ▶ Considerable ongoing demand
- ▶ The impact of medical underwriting
- ▶ Future regulatory change

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Thank you

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