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An Overview of the Bulk Annuity Market

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28 March 2017



About Pension Insurance Corporation

- Pension Insurance Corporation (“PIC”) is a UK insurer authorised by the PRA and regulated by the PRA and FCA
- Specialist, focused insurer

- Simple business model
- Investing in customer care
- Recognised for innovation via industry awards:



- **Portfolio of clients**

- £22.6bn of assets*, 26% share of buy-in/buyout sector long term
- Over 130,000 pension fund members insured
- Over 130 schemes insured, including the two largest full buyouts in UK

- Clients include:



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Panasonic



PENSIONS AND LIFETIME SAVINGS ASSOCIATION



- **Shareholders and management**

- Experienced Board and management team: Jon Aisbitt, John Coomber, Tracy Blackwell, Rob Sewell

- Capital provided by:

REINET INVESTMENTS S.C.A.

*YE 2016

JCFlowers&Co

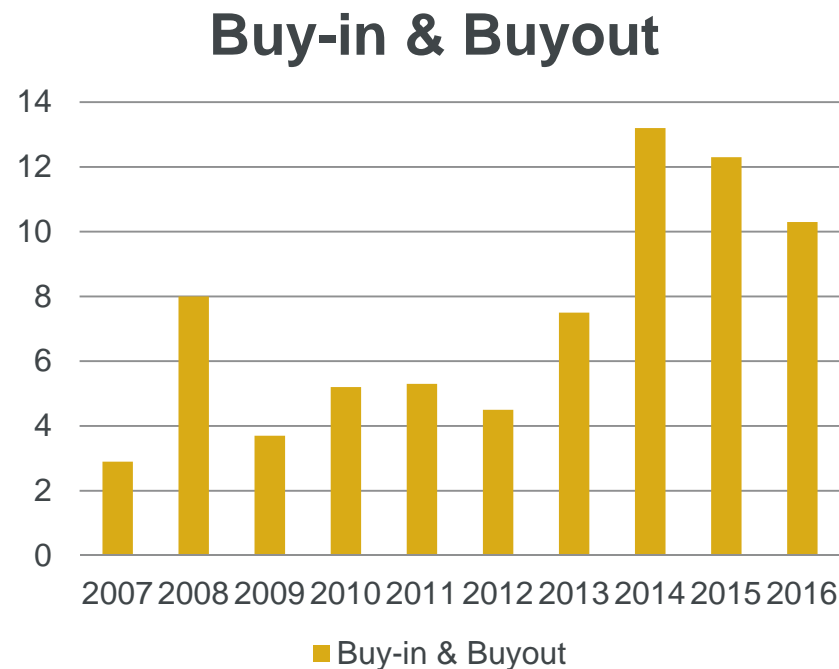


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Overview: Buy-in & Buyout Market (2007-2016)



*Source: Hymans Robertson and LCP buyout reports

UK Market Current Status:

- Over one million people have now been insured through buy-ins and buyouts**

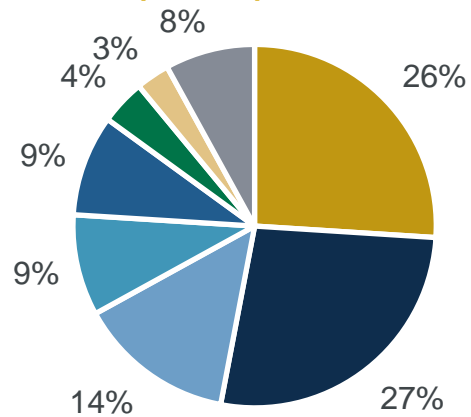
**Source: LCP "Buy-ins and buyouts – 2016 milestones and predictions for 2017" (Dec. 2017)



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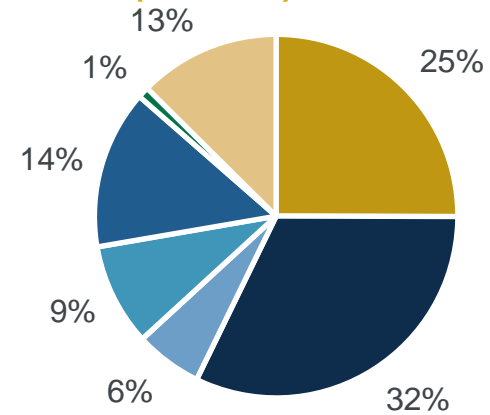
Share of buy-in/buyout sector by volume

2008-2016 (£70bn)



- PIC
- Legal & General
- Rothesay Life
- Aviva
- Prudential
- JRP Group
- Scottish Widows
- Others

YE 2016 (£10.2bn)



- PIC
- Legal & General
- Aviva
- JRP
- Scottish Widows
- Rothesay Life
- Others

Source: Hymans Robertson and LCP buyout reports



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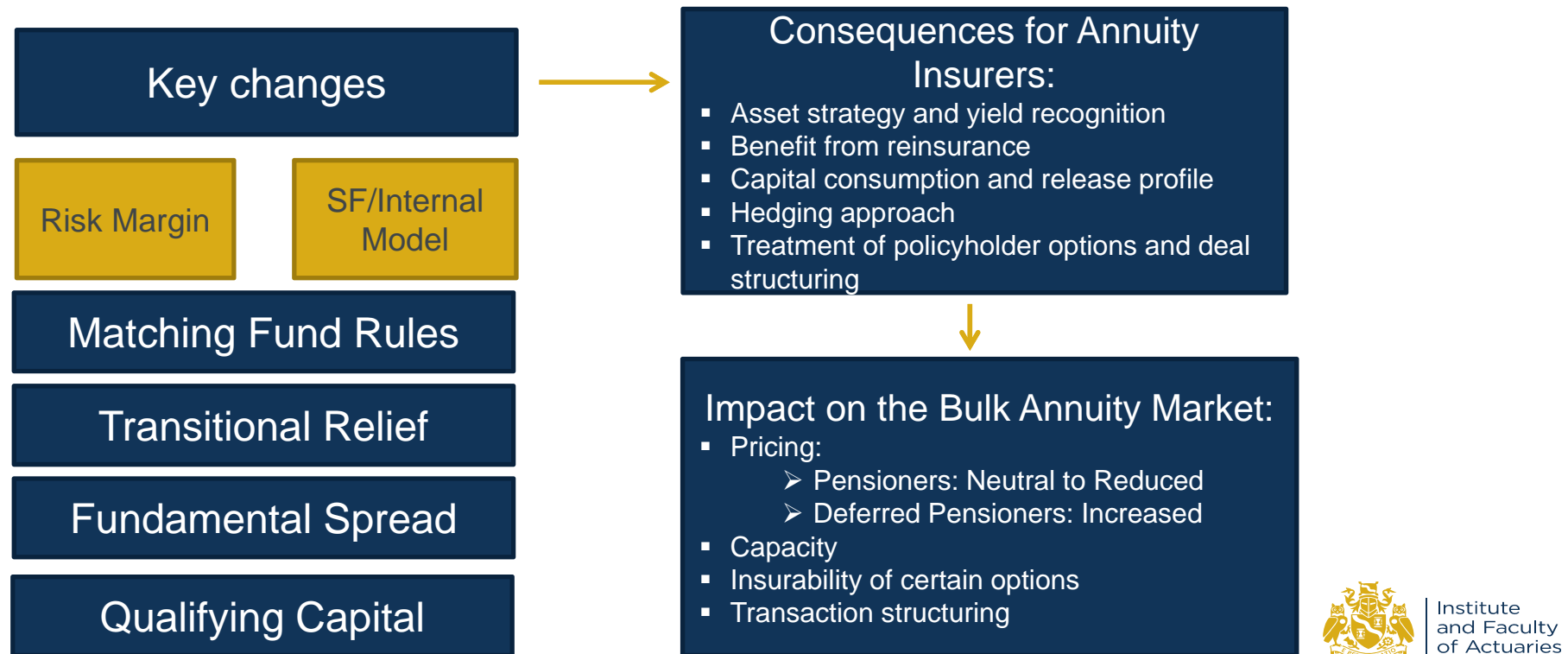
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Solvency II

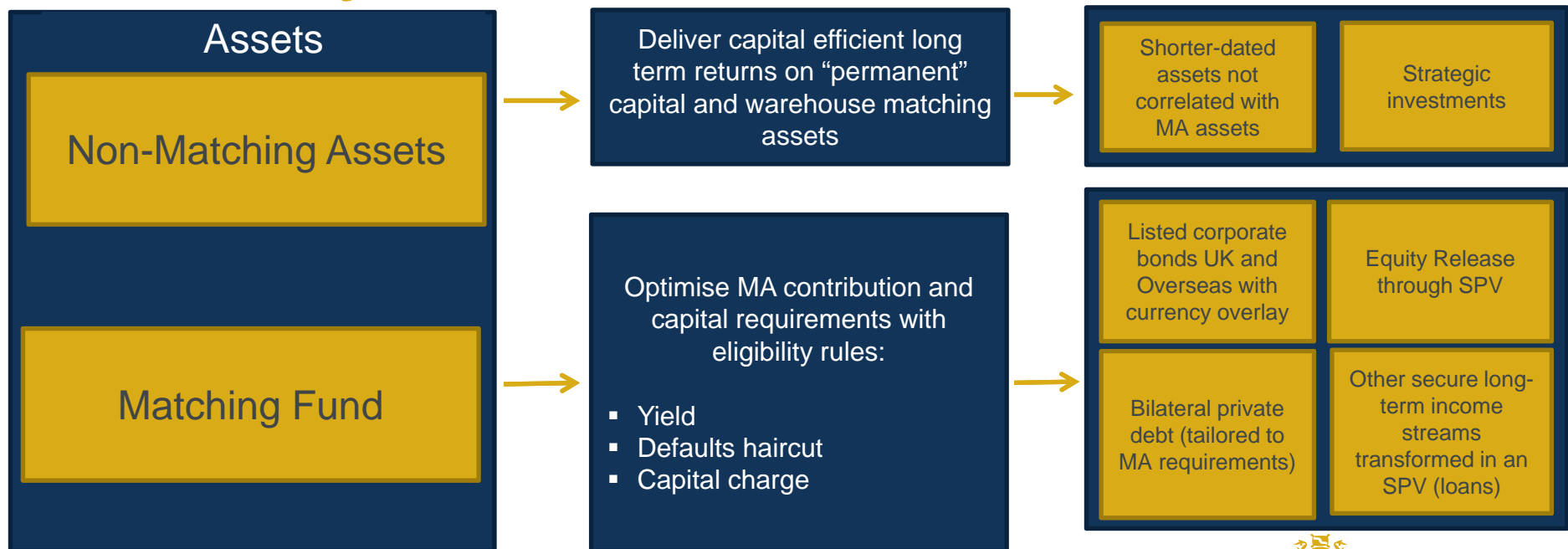
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ponsorship
Thought leadership
Progress
Community
Professional Meetings
Education
Working parties
Volunteering
Research
Shaping the future
Networking
Professional support
Enterprise and risk
earned society
Opportunity
International profile
Journals
Support

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Solvency II Impact



Asset strategy for annuities in the Solvency II world





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Brexit Impact- Initial reactions and experience so far

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Brexit – Initial reactions and outcome so far

Longer-term factors	Initial view on Brexit impact	Comment
Long-term prospects for the bulk annuity market	Neutral	Essentially a UK-to-UK market
Investment opportunities	Neutral	Possibly more barriers to EU-focused investments but volatility creates opportunity
Regulatory framework	Neutral to positive	<ul style="list-style-type: none">▪ Possibility that insurance regulation evolved to better reflect UK Life environment▪ Solvency II for pension funds already off the table



Brexit – Initial reactions and outcome so far

Shorter-term factors	Initial view on Brexit impact	Actual experience	Comment
Pause in decision making	Negative	Neutral	In reality very few processes were changed or cancelled
Lower interest rates	Negative	Neutral to positive	H2 was very busy as well-funded, well-matched pension funds de-risked further with insurance, but market focused on buy-ins
Fall in sterling	Neutral to positive	Positive	Foreign currency investments outperformed and cost of funding deficits falls for non-UK sponsors





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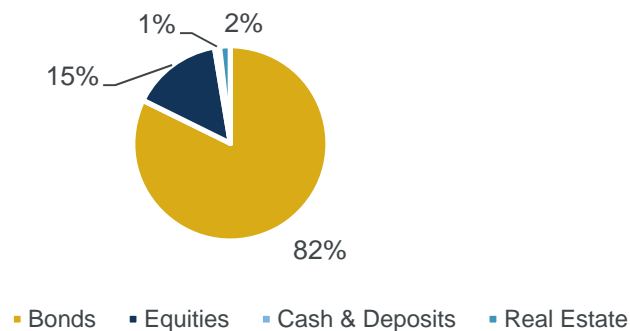
2016 Transactions and 2017 Predictions

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Pilkington Pension Scheme – Case Study

Mature Fund: Total Assets £1.67bn*

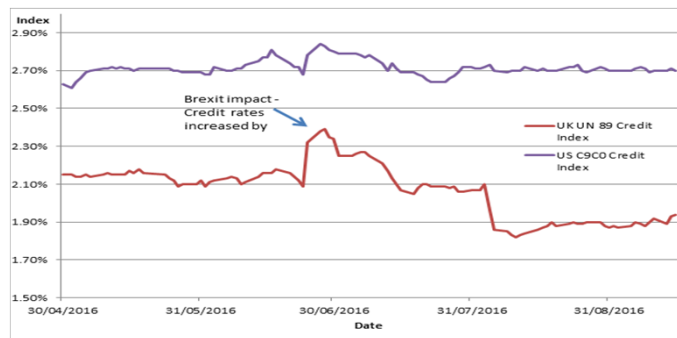


Path to de-risking

- Longevity swap = £1bn in 2011
- Buy-in = £230m in 2016



Financial position



- Scheme benefitted from rise in value of gilts
- Secured favourable buy-in pricing during a time of market volatility



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*Source: Pensions Fund Online
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Examples of buy-in transactions post-Brexit

Smiths

ICI

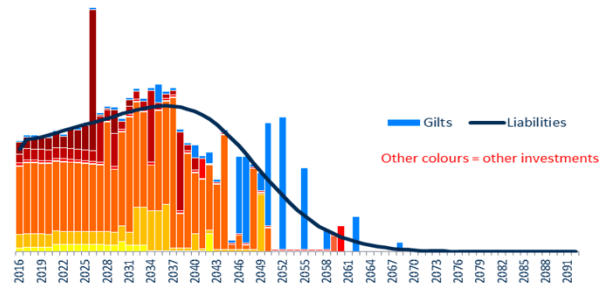
Rolls Royce



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2017 Market Outlook – Demand for Buyouts

- 2017 market volume predictions
- **Buyouts**
 - Largely driven by availability of sponsor to plug deficit. Why pay?
 - Affordability to buyout will vary with market conditions
 - Accounting reasons may drive sponsor decision
 - Wider sponsor corporate activity requiring a buyout
 - Deficit to buyout weighted against the future uncertain contributions payable to the scheme
 - Size if scheme is small compared to sponsor
- **Innovation in assets to improve buyout pricing**



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Infrastructure Investment

- **Infrastructure investment;**
 - £100m debt issue in Thames Tideway project: needed to protect from pollution
 - £75m in debt issued with Virgin Atlantic Airways secured on portfolio of landing slots at Heathrow
 - Over £500m of direct Housing Association transactions

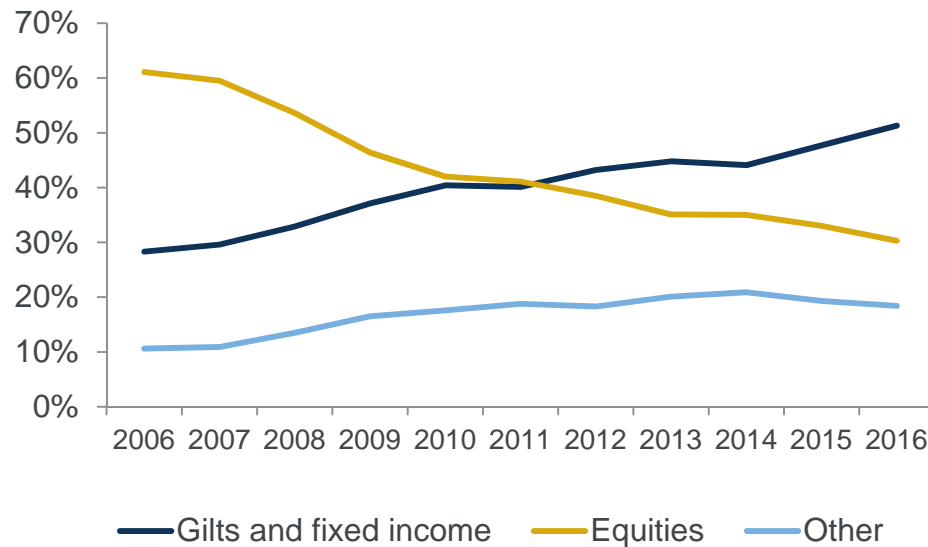
- **PIC continues to invest in;**
 - Student accommodation
 - Project finance
 - Government-guaranteed infrastructure
 - Local authorities
 - Regulated utility space

CASE STUDY: Thames Tideway project

- Investments stretch out to 2054
- Yields of 1% over inflation
- Long deferral period with money going in over a five year period



Potential for buy-ins: c.50% of pension plan assets are now held in fixed income securities



c.£650bn of gilts and fixed income assets held – Transition of these to annuities a logical next step for many pension plans

Asset allocation of UK pension plans

Source: Pension Regulator's 'DB Pensions Universe Risk Profile 2016 (The Purple Book)'. 'Other' assets are increasingly swaps, insurance, and other liability matching assets.



2017 Market Outlook – buy-ins

- Innovations in the market

Slicing of liabilities

Umbrella contracts

Longevity swaps converting to buy-ins

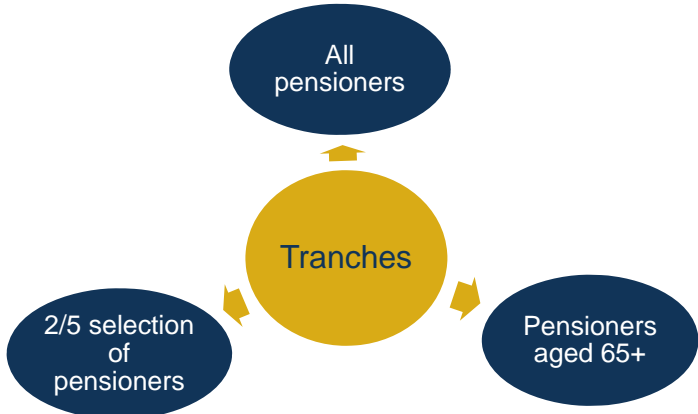
- Slicing of liabilities- Tranche a buy-in to cover what is affordable today

- Repeat the exercise- After initial pensioner buy-in continue to de-risk

Smiths

Cadbury's

NSG GROUP



ICI

CAA



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Summary of Scenarios for 2017

PIC Scenarios Analysis	Contraction and Global Recession	Muddle Through	Expansion US-led
Macros trends			
Growth	Growth is unsustainable Trump ineffectual US wages flat	Modest "sub-par" growth continues	More Infra spending market prices 4 hikes this cycle
Policy Action	Dovish Central Banks Euro political risk resurfaces: China hard landing	3 more rate rises from US in 2017; no change from ECB China slowdown is controlled	Wage growth picks up in US; Fed seen as behind the curve Stronger commodity / Oil prices Inflation rises
Other	Messy Brexit	China slowdown is controlled	-
Market Moves			
30 Gilt Yields	Down	Flat	Up
£ credit spread un89	Wider	Flat	Marginally wider
\$ credit spread (C9C0)	Wider	Flat	Marginally tighter
EM credit spread (EMHG)	Wider	Flat	Marginally wider
GBP/USD FX Rate	Dollar stronger	Flat	Dollar stronger
Affordability			
Partial buy-in backed by Gilts Buyout	More affordable Less affordable	Unchanged Unchanged	Unchanged- more affordable More affordable

Questions

Comments

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