



Attracting attention

✔ **Standard Life defined benefit solutions senior business development manager, Kieran Mistry, speaks to *Pensions Age* about bulk purchase annuity market trends and how schemes can attract insurers' attention**

The bulk annuity market has seen record volumes in recent years – how is 2022 shaping up so far, and how does it compare with last year?

In 2021, bulk annuity transaction volumes were around £28 billion, the third largest total ever. That's an impressive figure when you consider that only £8 billion had been written by mid-year.

Looking ahead at how 2022 will pan out, we've already had sight of over £13 billion worth of buy-ins and buyouts that plan to complete by mid-year. Given that activity tends to pick up in the second half of the year, we'd anticipate market volumes in 2022 to once again exceed £30 billion.

The one thing to watch out for which can really swing volumes is the very largest transactions, such as those that drove record volumes in 2019. A couple of our transactions at the end of 2021 fall into that camp and helped bump up the total for the year – a £1.8 billion pensioner buy-in with the Imperial Tobacco Pension Fund, and a £1.7 billion full scheme buy-in with Gallaher Pension Scheme.

Do you expect to see many more of those mega deals coming to market over the longer term?

I think there are plenty of very large schemes out there which will look to buy out when funding allows, so expect so-called 'mega deals' to continue to be a feature of the market.

More generally, there are over £2 trillion of UK defined benefit pension

liabilities out there, and more and more schemes are aiming towards buyout. This trend appears set to continue as the sponsors and trustees look to minimise their risk, and The Pensions Regulator pushes trustees to set long-term objectives.

Given recent funding level improvements, a large proportion of schemes making up that £2 trillion of liabilities are expected to be able to afford buyout in the next 10-15 years. When stacked against a market writing £30 billion a year, it feels quite clear demand and volumes will be on the rise.

As the bulk annuity market is very broad with lots of transaction shapes and sizes, which areas do Standard Life like to focus on?

Within Standard Life we aim to quote on the majority of the BPA market, from pensioner-only buy-ins to full scheme buyouts. We do not have an upper limit as to the size we have appetite for. Over the past year or so we have quoted on around 90 per cent of transactions by volume, so we really do try to cover the whole market.

We have a very talented bulk annuity team, however our core transactions team that price transactions is relatively small. We carefully protect that resource to ensure we deliver on processes we commit to, which means we can't always participate in tender processes for the smallest transactions. However, we're exploring ways to serve the smaller end of the market. For example, we continue to hire pricing analysts into the team to increase capacity. And of course, there are

steps trustees of smaller schemes can take to make saying no difficult!

As you do have to be somewhat selective – how do you decide which deals to quote on? What's important?

When we look at a transaction that comes to market, there are quite a few things we consider, but you can pretty much bucket them into three areas.

The first is all about preparation. We'll look for evidence that the scheme has done their homework, appointed an experienced adviser, that they have good quality data, the benefit specification is clear and has been signed off by their legal adviser, and it is all presented in an easy to understand way.

The second thing is governance, such as ensuring timescales are clear, that there is clarity on who is driving the process and that both the sponsor and trustee are engaged and aligned. Most importantly, there can be unexpected developments during a bulk annuity process, so seeing that the trustees and sponsor can be nimble and reactive is important.

Third is looking for areas where we can add value, for example when a scheme has a particular concern or issue to fix. We really pride ourselves on thinking outside the box and finding innovative solutions that meet schemes' objectives, and love to have opportunities to put this into practice!

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