Summary
• The bulk annuity market has remained relatively buoyant amid the pandemic, allowing those schemes who were prepared to take advantage of volatile pricing.
• This in turn has allowed for an increase in the number of 'repeat buyers' approaching the market, whilst the trend of increasing large transactions has been put on pause.
• 2021 is expected to bring another strong year for the bulk annuity market, with a return to the jumbo deals that dominated the market in 2019.

Keeping afloat

After a turbulent year for so many, Sophie Smith considers how the bulk annuity market has managed to remain buoyant throughout the pandemic and what the future might hold

It seems fair to say that every industry has been heavily hit by the pandemic, with numerous business forced to shut their doors for the majority of the year, and others having closed their doors for the last time ever. But whilst so many sectors have faced struggles, the bulk annuity market has experienced another strong year. As Lane Clark and Peacock (LCP) partner, Charlie Finch, states that it has been "remarkably resilient" amid the pandemic and is on track to top £25 billion in 2020, making it the second busiest year after the record-breaking 2019.

"It's been a far more challenging year than anyone could have predicted," acknowledges Aviva managing director of annuities, John Smitherman-Cairns, agreeing however, that despite the challenges the global pandemic has presented, schemes that are well-funded and well-prepared have been able to complete transactions quickly, and even capitalise on market opportunities and accelerate their de-risking plans.

Adding to this, Mercer risk transfer partner, Ben Stone, notes that although remote working has presented practical challenges, with bulk annuity projects often involving over 100 individuals from multiple stakeholders, everyone has adapted really well. In particular, he says that insurers, trustees, scheme sponsors and their advisers have shown "remarkable resilience" to completing bulk annuity transactions this year, with the lockdown in spring 2020 acting as a "masterclass" in how to use market volatility to create opportunity.

Indeed, whilst this continued market appetite could prompt concerns around pricing, Rothesay Life head of business development, Sammy Cooper-Smith, explains that the number and variety of schemes looking to de-risk, coupled with various investment and hedging positions, has allowed trustees to secure competitive pricing, despite the volatility.

The benefits of volatility

LCP partner, Imogen Cothay, echoes this, stating that nimble schemes were able to take advantage of "exceptional pricing opportunities", locking in some of the most attractive pricing seen since the 2008 banking crisis. "We helped a range of schemes take advantage of pricing opportunities fuelled by Covid-19 to secure benefits in full ahead of plan including a deal for nearly £930 million with Littlewoods and a £610 million deal for the Marathon scheme sponsored by RockRose Energy," she adds.

The pricing opportunities arising from the pandemic have also reinforced the importance of preparation, with Cooper-Smith highlighting scheme readiness as one clear trend stemming from the market volatility, as trustees needed to transact quickly.

This has, in turn, seen an increase in 'repeat buyers', which LCP estimates made up half of all transactions announced over £100 million in the first half of 2020. "Return buyers are great for insurers," says Stone, explaining that they know the buyer already and they are keen to treat their policyholders well.

This trend has also been prominent in bulk annuity announcements over the past year, with the Co-operative Pension Scheme completing four buy-ins in 2020, and the ICI Pension Fund adding a further £70 million to their nearly £9 billion of existing buy-ins through their umbrella contract, in a record 17th transaction.

Changing tides

This is not the only transaction to have utilised umbrella contracts, which Finch argues have come to the fore over the past year as they allow larger schemes to quickly extend existing buy-ins when price opportunities emerge, as the M&S scheme did earlier this year. He adds: "We believe that many large schemes will put umbrella contracts in place in future such that the majority of business in the market will be through such structures."

Alongside the emergence of new trends, 2020 has also seen previous trends bucked. The increase in average transaction size, for instance, has not pulled through, despite the number of bulk annuities under £100 million between 2014 and 2019 falling by 30 per cent.

"One key difference between 2020 and 2019 is that fewer £1 billion plus transactions have completed this year," Cothay explains. "This has created opportunities for mid-sized schemes, with 22 transactions between £100 million and £500 million in the first half of the year – double the number completed in the first half of 2019 – despite total H1 volumes being lower this year."

However, Mercer streamlined quotation service lead, Ruth Ward, argues that transactions below £50 million have completed at a regular rate for the past two years, and that is the absence of jumbo deals that has bought smaller transactions to the fore.

Despite this, it seems that this reduction in mega-deals may not be a long-live trend in the market, as Smitherman-Cairn also predicts an increase in the number jumbo-sized deals, as the de-risking trend continues. "The timing of these deals is somewhat harder to predict," Cooper-Smith agrees, stressing that appetite to provide solutions to larger schemes remains as strong as ever nonetheless.

Keeping up with demand

Confidence in the market remains obvious when discussing capacity and appetite with industry figures, with Cooper-Smith anticipating "significant market demand" and a particular increase in transactions that include deferred populations.

Smitherman-Cairns adds: "Insurers appear to be well served for capital and fully able to support current market demand. Similarly, the availability of longevity insurance is flexing towards market demand and we're now seeing a greater availability for deferred reinsurance. There is also movement towards increasingly diversifying portfolios to balance exposure to different risks, both by investment type and, increasingly, by location."

Awaiting on the horizon

This capacity, as well as the re-emergence of jumbo deals, is also expected to mean another strong year for the bulk annuity market in 2021. "The pipeline for 2021 is already strong and we expect another year over £30 billion, with potential for much higher if a number of 'jumbo deals' complete," predicts Stone, noting that there will also likely be more longevity swaps in 2021, as schemes consider long-term plans and see the uncertainty surrounding future longevity as something to address sooner rather than later. Finch agrees, noting that around one in five of all publicly announced longevity swaps have now been converted into buy-ins, a trend which he says is set to continue, as the economics for moving the longevity into a buy-in looks increasingly attractive.

Smitherman-Cairn warns however, that if the market continues to grow, insurers must strive for more efficient processes to be able to service overall demand, emphasising that those schemes who have completed upfront preparation and are ready to transact will be better placed as they come to market. Furthermore, Finch stresses that whilst there is currently plenty of insurer capacity, that could change over the next few years, as LCP predicts a significant increase in the demand and volumes as pension schemes start reaching their end of their journey plans and seek to buyout.

"Even today, schemes need to make sure they are 'at the front of the queue' if they wish to obtain a good number of competitive quotations and good result for their members," Finch notes, stating that there are a number of preparatory steps that can be taken to allow pension plans to present themselves in the best light, such as understanding issues on affordability, investment plans and data.

However, Stone argues that future years won't require an 'either/or' but will likely have room for both large and small transactions to compete, stating that processes are already more efficient and can now cope with both jumbo deals and increasing numbers of deals for smaller schemes. Furthermore, he emphasises that all eight insurers, and their reinsurers, have the ability to grow their bulk annuity volumes, stating however, that schemes must still work to ensure they are approaching the market in the correct way.

"Maximising insurer interest is not key to minimising price, the important thing is to attract the right insurer to suit your scheme," he says. Stone also adds that whilst repeat business has become more common, insurers have always considered each transaction on its own merits and first-time buyers can carry out all necessary preparation to be equally attractive in a busy market.

This sentiment is echoed by Smitherman-Cairn, who warns that the re-emergence of larger transactions may see a significant spike in demand. He says: "This means it will be more important than ever that schemes coming to market are well prepared."

Written by Sophie Smith