Breaking records

RSA UK&I director of reward and pensions, Philip Exact, and Pension Insurance Corporation (PIC) head of origination structuring, Uzma Nazir, sit down with Jack Gray to discuss the RSA pension schemes' record-breaking £6.5 billion buy-in with PIC

Can you give a broad overview of the make-up of this record-breaking deal?

Uzma Nazir (UN): The buy-in was for two schemes sponsored by RSA Group, the Sal Pension Scheme (SALPS) and the Royal Insurance Group Pension Scheme (RIGPS), insuring in total c.£6.5 billion of liabilities and covering the pensions of 40,000 members.

Philip Exact (PE): The schemes' assets at end of January 2023 were £3.7 billion for the SALPS and £2.3 billion for the RIGPS. Together, the schemes have approximately 40,000 members, with around 21,200 deferred and 19,200 pensioners. Around 800 of these members are still employed by RSA, having joined before the schemes closed in 2002. The deal covered all members and all sections of both schemes, including members in the Isle of Man and Irish members with service built up before April 2006.

UN: It is the largest-ever bulk annuity transaction from pension scheme to insurer. Some of the transaction features that we addressed were:

Process – two large schemes, each with a separate trustee board and advisers, simultaneously insured with different benefit structures and different categories of members. As with any large pension scheme with a long history, benefits structure evolves over time and can be complex.

Complex asset structures – large schemes typically have complex asset strategies, which was the case here. This included significant amount of illiquid assets, which PIC and the client found solutions for. PIC were able to accept a majority of the assets as part of an in-specie transfer, which took careful planning and developing a robust asset transition plan.

Longevity swap – structure accommodated scheme's existing longevity swap.

Pricing – pricing agreed amidst unprecedented market volatility during the liability-driven investment crisis.

Asset lock – PIC provided an asset lock that closely matched the scheme's assets, removing risk of adverse market movements over the exclusivity period. As there were two schemes with different benefit structures, this required two separate asset locks to match the specifics of each scheme.

What were the primary benefits and challenges of this being such a large transaction?

PE: As the sponsor of the schemes, the primary benefits of the transaction for RSA were the removal of a substantial amount of risk from the balance sheet and the enablement of the release of capital. The transaction also removed the need for RSA to make annual deficit contributions. For RSA's Canadian parent company, Intact, there was an improvement to operating return on equity. For the trustees and pension scheme members, the transaction largely removed the remaining funding, longevity and investment risks from the schemes.

UN: The benefit of being a large scheme is the size is attractive to an insurer. In the case of RSA, this deal was higher than the total volume we wrote in 2022 across all deals and brings with it economies of scale across all of

PIC's internal teams. The challenges of a large transaction are much the same as the benefits – the size! Rising interest rates last year have led to many pension schemes, such as the RSA schemes, being fully funded and able to insure benefits, many years ahead of schedule. Being ahead of schedule means there are likely to be areas that need addressing quickly to lock into an insurance transaction, such as gathering data and obtaining a legally signed-off benefit specification, insuring non-standard benefits while ensuring Solvency II compliance, finding a way to unlock value from illiquid assets, which are not easy to sell in the short term – and given the size of the scheme was not trivial task.

These issues haven't really been present in the bulk annuity market to this scale until now, because most bulk annuity transactions have been in the planning for months and years ahead of coming to market in line with largely de-risked assets. Resolving these challenges requires an insurer who is innovative and a client who is collaborative.

Why did the trustee choose PIC as the insurer?

PE: The trustees of each of the schemes chose PIC following a competitive tender and completed an extensive due diligence process, including a review of its financial strength. In addition to financial strength, the trustees also noted PIC's focus on their current and future policyholders as a particularly positive characteristic during the selection process.

What made the scheme attractive to PIC?

UN: It was quite clear early on that the trustees and sponsor were serious about completing a buy-in and were very clear with us with what their objectives were. They said up front this needs to be an efficient and joined up process and they have a history of running other successful projects collaboratively in the past with both sets of trustees, the sponsor and advisers.

We really valued the open dialogue because it meant that when it came to designing the insurance or when hurdles arose, the trustees and sponsor as well as their advisers took stock, we met face to face and they gave us an opportunity to work with them to come up with solutions. The end result was a buy-in that met all of the trustees and sponsor objectives, resolved previously intractable problems and ultimately provided security to member benefits through the insurance regime.

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What impact did the gilts crisis last year have on the transaction process?

PE: We started the process in June 2022 and were evaluating tenders with the trustees at the time of the LDI crisis. The schemes had well-tested contingency plans to cope with rapid interest rate rises. This enabled liquid assets to be realised in a controlled way and, as a result, the LDI crisis had little impact on the schemes' funding positions.

This meant the LDI crisis did not materially change the economics of the deal. We were conscious that external factors could impact the deal adversely and we therefore wanted to conclude the deal, and lock down pricing and risks, as soon as we were able to.

UN: The LDI crisis caused pricing volatility between the scheme assets and the PIC's pricing. The scheme was hedged largely using gilt assets whereas PIC pricing is linked to swap yields. The LDI crisis caused unprecedented differences between the gilt and swap markets, which caused this volatility.

After a period of monitoring and redesigning some of the asset strategy, we were able to lock our price to the scheme's assets, go exclusive with the scheme and reduce this volatility. The LDI crisis also caused illiquidity in asset markets, and some of the assets the scheme had intended to immediately sell were not possible anymore, so we helped in finding a different solution.

How much input was there from the sponsor during the process?

PE: The company and trustee boards have worked closely for many years to remove risk, when possible, and the trustees made clear they would be open to discussing moves to remove further risk over the medium term. The company accelerated these conversations by initiating the project when we saw a market opportunity emerging. RSA, with our parent company in Canada, were closely involved at every stage. RSA's engagement was critical given the need for substantial cash injections to bridge the gap between each of the schemes' assets and the cost of each buy-in.

UN: The sponsor was heavily involved at all stages of the process including engagement with PIC. The transaction was facilitated by upfront contribution from the sponsor of approximately £500 million.

What is the scheme's long-term de-risking strategy?

PE: The trustees have worked closely with the sponsor over several years to manage or remove as many of the risks as possible, and we'd already reached a point where the investment risks were low and some longevity risk had been insured. The deal we announced in February removed the most material of the remaining risks, successfully meeting all our key de-risking priorities.

Written by Jack Gray