

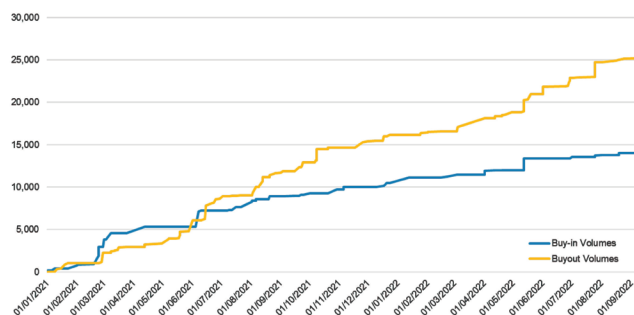
# Continuing to grow

## ✔ Matt Richards provides an update on the bulk purchase annuities market

Market commentators at the start of 2022 predicted annual market volumes close to the record-breaking volumes seen in 2019. Whilst we now don't expect volumes to reach quite this level, the 2022 bulk annuity market has not disappointed. Insurers have been kept extremely busy, as more and more schemes approach their endgame and begin engaging with insurers to plan for their future.

There is a general expectation that the bulk annuity market will continue to grow over the coming years. Market predictions come in comfortably above £30 billion of DB pension risk transferred for the year, with many predicting potential risk transfer volumes hitting in excess of £50 billion or £60 billion before the end of the decade.

Alongside the general expansion of the market, there has been a clear shift in the types of bulk annuity transactions coming to market. Historically, a popular route to full insurance began with an initial pensioner buy-in transaction, with a phased buy-in approach over time until full scheme insurance was achieved. Today, an increasing number of schemes are approaching the market looking to insure full scheme liabilities as part of their first transaction. In the current market environment, we expect this



Source: Standard Life – Cumulative Premium Quotation requests since 1/1/21, excludes very large (>£2bn) and small (<£50m) transactions

trend to continue.

The chart below shows a cumulative summary of the premium volumes based on the types of requests we have received over the last couple of years.

The graph demonstrates the trend I've described, as you can clearly see full scheme transactions have boomed this year.

### So why is this happening?

Demand for insurance is increasing. Most schemes consider insurance as the gold standard and therefore end-game strategy and so the demand has always existed, but affordability has been a key challenge. The current market environment, plus investments made by sponsors to their pension schemes, have aggregated to materially increase scheme funding. This means that many schemes are much closer to buyout than they may have anticipated, and have unexpectedly been looking to lock in security for their members in 2022.

Rising interest rates has resulted in a reduction in overall scheme Technical Provisions, and although inflation is at historically high levels, rules based caps on inflation mitigate the inflationary impact on funding, and so improvements have generally been seen across the board.

Many schemes are likely to have a LDI strategy in place, with some degree of hedging, but schemes are not perfectly hedged. As a result, not all schemes will be winners in these market conditions, but there have certainly been

favourable tailwinds for a number of schemes.

In the bulk annuity market, favourable market conditions and innovation are leading the way to some of the most competitive insurance pricing seen to date.

Insurers have benefitted from an increase in credit spreads and rates to assist with their pricing. This, coupled with the continued growth and strength of the reinsurance market where competition is fierce, means schemes are benefitting as a result. For example, the provision of quotations covering deferred members is now relatively commonplace and many insurers have flow treaties with reinsurers that means that they can price efficiently and competitively.

Over the past few years we have also seen the use of asset backed reinsurance increase significantly in the market – a tool which helps insurers to transfer higher volumes of risk from the pension scheme landscape into the insurance sector in a more capital efficient manner. I expect this trend to continue.

### Are there any constraints to future growth?

Several insurance providers have talked about their ambitions in the bulk annuity market, which are way in excess of the volumes being written to date – there is clearly appetite for the market to grow.

Capacity within the market is a key constraint, and Standard Life, along with other insurers continue to hire to meet increasing demand.

All in all, the market is growing rapidly, and insurers and reinsurers alike are preparing through innovation and resourcing to be ready for the expanding market demand.



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