HYMANS ROBERTSON

RISK TRANSFER | **SPOTLIGHT**

How to assess insurers on non-price factors

When trustees choose an insurer to secure their pension scheme's liabilities, they increasingly look at areas other than price. Price is likely to remain important, and will affect how much other factors are taken into account. Trustees and employers need to decide what other factors are important, and how much weight to give to them.

When we advise pension schemes on risk transfer, we devote a lot of time to comparing insurers in a range of areas, so that trustees and employers can be satisfied they're making the right choice.

Comparing administration capabilities

Administration capability is often high on the list. Trustees and employers want to make sure their members get a good service in the long term, even (if relevant) after the scheme has wound up. It's also important for trustees and employers to choose the insurer they think will be the best to work with once the policy is signed.

As many schemes find themselves better funded than they expected, administration is coming under strain throughout the market. Trustees are rightly probing about the impact on service levels and project timings.

In a webinar we hosted in September 2024, **96% of attendees** said they would pay a higher premium to transact with an insurer whose administration service they preferred, if they could afford it. Of these respondents, **nearly 60%** would only do so if the price difference was small.

Operational considerations

After they purchase a buy-in policy, trustees still have a lot of work to do to meet the insurer's contractual requirements. These include giving the insurer regular information on changes to members' statuses, and any post-buy-in data cleansing or preparations for buy-out, if relevant.

Taking time to consider how easy and efficient it will be to work with the insurer is key.

Examples of operational considerations

- Contractual data cleansing tasks
- Insurer flexibility and practical support
- Ability to match current operational practices
- Ease of ongoing reporting obligations
- Ability to meet buy-out timescales

The member experience

The insurer you choose for your buy-in will ultimately be responsible for liaising directly with your members, if the scheme moves to buy-out or passes on direct administration responsibility to the insurer. The insurer will influence the member experience: the amount and type of communications members receive, any online functionality they have and service timescales.

Examples of member experience considerations

- Insurer brand name
- Service timescales
- Resource
- Online functionality
- Type and quality of communications
- Face-to-face opportunities for members to speak to the insurer

Security and governance

Regardless of whether an insurer provides administration services in-house or outsources them, trustees want reassurance that the insurer has appropriate controls to manage risk and monitor performance – and to implement change where things aren't working.

Examples of security and governance considerations

- Risk management processes
- Controls on outsourced insurers
- Cyber security
- Complaints handling
- Acting on lessons learned

How to compare insurers

Trustees have several tools they can use to assess insurers on their administration capabilities. Advisers can assess insurers' administration capability and relay their own experience. The scheme administrator can give its view on the operational requirements of the transaction.

Professional trustees might be able to draw on their experience of an insurer in other transactions. If the trustees have no experience with a particular insurer, they can seek references from trustees of other schemes.

Trustees can also meet the insurers. Although insurers are busy, they're often happy to talk to trustees to bring the discussions to life and give a feel for working with the insurer.

A demonstration of the insurer's admin system can help show trustees what the member experience might be like. Not all insurers can offer this, and even then, they might only do so during a period of exclusivity. If this is important for the trustees, they should say so early so they can explore it with insurers from the outset.

Considering other factors

Price and administration aren't the only factors that trustees and sponsors would consider. They might also be thinking about the insurer's financial strength, and how it manages risks stemming from its operations, investments and use of funded reinsurance.

Advisers can prepare overviews of insurers' financial statistics based on public information and market updates provided by insurers. These statistics include solvency levels and business volumes. Specialist covenant advisers can also give an independent review of insurers' covenant strength.

For more details, trustees can ask insurers questions about financials during the tender process. Insurers can provide up-to-date information relevant to the transaction.

Environmental, social and governance (ESG) factors are getting more focus too. Insurers need to show that their approach to ESG isn't just a tick-box exercise.

Advisers assess insurers' ESG credentials so trustees can compare them. For example, they can assess net zero targets, any initiatives on which insurers are a signatory, and reporting for Taskforce for Climate-related Financial Disclosures (TCFD) requirements.

Insurers also report on their own ESG progress. And trustees could use a 'beauty parade' to focus on ESG as part of the selection process.

The right broking approach can help

Choosing the right insurer for a buy-in encompasses a range of factors, some of which may be bespoke to the scheme's circumstances. You should be clear up front about what's important to you and build this into your selection process. Being clear up front helps with productive discussions and builds confidence that the journey after buy-in will be smooth and efficient, with members getting a good experience.

If non-price factors are important, perhaps because of specific scheme complexities, a scheme could consider a non-standard approach to the market. Such an approach can sometimes be more powerful than a typical broking process.

We have run a number of insurer selection processes where the scheme shortlists insurers based on non-price factors and then requests quotations from only those shortlisted insurers. A focus on non-price factors means a scheme might be able to negotiate specific requirements from insurers in exchange for shortlisting them.

However, negotiations must be balanced with making the process straightforward and efficient, to build insurer engagement, especially for small schemes. The best approach depends on the scheme.

Want to find out more?

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