HYMANS ROBERTSON

Risk transfer report

August 2016

Welcome to a unique insight into the risk transfer - bulk annuity market

The bulk annuity market has seen many developments since it took off in 2007, but none more significant than the material changes we've seen in 2016.

This is the first annual report where we will track the key changes in the bulk annuity market and explain what these changes mean for Defined Benefit (DB) pension schemes. We will also share our insights into the trends for the coming year and beyond, and the implications for DB pension schemes who are looking to capture opportunities to transfer risk to insurance companies.

Every year we will track four key areas:

1. **Bulk annuity insurers** – an update on changes we've seen in this market.
2. **Insurance company strategies** – insight on strategies insurers are adopting for selling bulk annuities and what this means for trustees and sponsoring employers.
3. **Regulation** – what's new and what does this mean for you.
4. **Demand from DB pension schemes** – how is demand likely to change in the future and what does this mean for when the best time to come to the market is.

Finally, we bring insight into the insurers with a pull out on the key players in the market, and their individual strategies.

As you will see from our commentary, Prudential's position has changed in the bulk annuity market during 2016. Since drafting this report, Prudential confirmed, on 10 August 2016, that they would be withdrawing from the bulk annuity market. This was not a surprise given the comments they have made throughout the year. Competition in the bulk annuity market remains keen with seven insurers having strong appetites to transact.

I hope this first report helps you towards whatever goals you have for your scheme and contributes towards ensuring your members have better, more secure futures.

I'd be delighted to share more of our insights, just drop me a note or give me, or any one of the team a call.

James Mullins
Partner and Head of Risk Transfer Solutions
james.mullins@hymans.co.uk

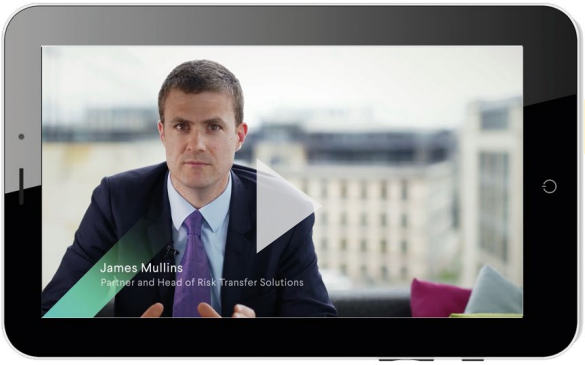
Contents

The last 18 months have been an important period for the risk transfer market. We've seen some of the biggest transactions since the market began. Will it continue or is there a capacity crunch? As always the answer isn't simple.

Different insurers have different appetites, different risk profiles and different capacity issues. By understanding the market, trustees and sponsoring employers can get a better handle on what routes might be open to their DB pension scheme. This report is designed to help trustees and sponsoring employers on their way to a resilient plan. It doesn't just look back, but gives valuable insights into what is likely to be in store next for the risk transfer market.

There's a lot of important information here because we don't think you can leave risk transfer transactions to chance. The more you understand about the market, the better futures you can secure for your members.

In our short video James talks about why it's so important to understand the market and start considering your de-risking options now.



1 Bulk annuity insurers

In this section we analyse the recent changes to the insurance companies offering bulk annuities and comment on the implications for DB pension schemes looking to transfer risk.

There are now eight insurance companies competing for pension scheme bulk annuity business, a 60% increase from the five insurers active in this market just over three years ago. Furthermore, we expect other entrants to this market over the medium term.

Figure 1 summarises the volume of DB transactions the eight insurers completed during 2015 and figure 2 illustrates their transaction size appetite for the next 12 months.

Figure 1: DB bulk annuity market share by value for the year to 31 December 2015

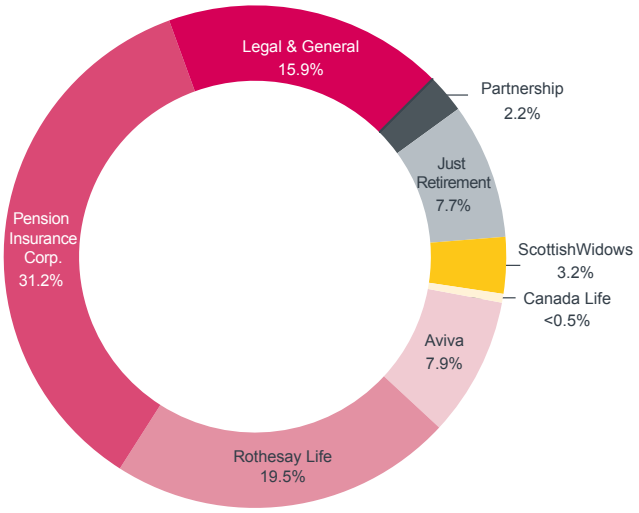


Figure 2: DB bulk annuity size appetite for each insurer

	Business written over 12 month period ending 31 Dec 2015[1]			Appetite by transaction size			
	Number of deals	Total size	Average size	‹£50m	£50m - £100m	£100m - £500m	›£500m
Aviva	34	£984m	£29m	Target market	Target market	Target market	More selective
Canada Life	3	£65m	£22m	Target market	Target market	More selective	Unlikely to quote
JRP Group[2]	51	£1,234m	£24m	Target market	Target market	More selective	Unlikely to quote
L&G	64	£1,977m	£31m	Target market	Target market	Target market	Target market
PIC	13	£3,868m	£298m	More selective	Target market	Target market	Target market
Prudential	6	£1,508m	£251m	Unlikely to quote	Unlikely to quote	Unlikely to quote	Unlikely to quote
Rothesay Life	5	£2,420m	£484m	Unlikely to quote	Unlikely to quote	Target market	Target market
Scottish Widows	4	£1,300m	£325m	Unlikely to quote	Target market	Target market	More selective

Target market
More selective
Unlikely to quote

[1] Except for the new entrants Canada Life and Scottish Widows where the figures cover the period to 30 June 2016.
[2] We have combined Just Retirement's and Partnership's figures under JRP Group, following their merger in April 2016.

New competition from Scottish Widows and Canada Life

Prompted by material falls in individual annuity sales following the 2014 Pensions Freedom and Choice changes, Scottish Widows and Canada Life both decided to branch out into the bulk annuity market in 2015, to add to their existing annuity portfolios of well over £10bn each.

In a short space of time, both insurers have had impressive success in this market, albeit with very different approaches and areas of focus, as illustrated in the table below.

Figure 3: Scottish Widows' and Canada Life's impressive entrance to bulk annuity market

	Scottish Widows	Canada Life
Initial target market	Pensioner buy-ins **£50m to £500m**	Pensioner buy-ins **up to £50m**
Developments to target market	Larger pensioner buy-ins of **more than £500m** (to include collateral) Buy-ins and buy-outs which include deferred members	Pensioner buy-ins **up to £100m**
Team	Significant number of well-known external hires, including: Emma Watkins, Bulk Annuities Director (previously at Metlife) Steve Robinson, Head of Pricing and Quotes (from Aviva) Mike Edwards, Head of Origination and Structuring (from Legal & General)	Largely organic growth, with staff transferring from other related business lines
Bulk annuity transactions up to 30 June 2016	**4 buy-ins, totalling £1.3bn** Including: **£0.4bn** Wiggins Teape buy-in in November 2015; and **£0.6bn** ICI buy-in in May 2016.	**3 buy-ins, totalling £0.1bn**
Average bulk annuity transaction size	**£0.3bn**	**£0.03bn**

Both insurers have had strong appetites to transact over the last nine months, and between them they have accounted for well over one third of all DB pension scheme bulk annuity transactions, by value, during the first half of 2016. Indeed, Scottish Widows has made the fastest ever entrance to the bulk annuity market, taking on total premiums of £1.3 billion in just over seven months.

Canada Life and Scottish Widows have achieved these impressive results by offering competitive pricing that provides a return in excess of gilts. This enables pension schemes to continue to capture the opportunity to exchange their available gilt holdings (a broad liability match) for a buy-in (a perfect liability match), combined with a small increase in the overall expected returns on their assets and to obtain some longevity risk protection for free. This pricing opportunity continues to exist even after the market shocks caused by the Brexit referendum result.

More established insurers have inevitably had to refine their pricing in order to retain their market share in the face of this new strong competition from Canada Life and Scottish Widows.

Our view

A positive development for DB pension schemes

New entrants into the bulk annuity market always present excellent opportunities for DB pension schemes, especially for those who are well prepared and have the governance in place to make efficient decisions. This has particularly been the case with the impressive entrance that Canada Life and Scottish Widows have made to this market. They have shaken up pricing for large parts of the market – with Canada Life currently focussing on buy-ins of up to £100m, whilst Scottish Widows is currently focussing on buy-ins between £50m to £1 billion. This has been great news for pension schemes of all sizes. Over the next five years, we expect up to three further insurers to enter the bulk annuity market, further improving the choice and pricing available to pension schemes. As set out in section 4 there is likely to be strong demand for bulk annuities from pension schemes for the foreseeable future, making this market an attractive source of business for insurers.

Hymans Robertson has advised on Canada Life's largest buy-in transaction.

Richard Wellard
Partner and Risk Transfer Specialist
richard.wellard@hymans.co.uk

Just Retirement and Partnership merger

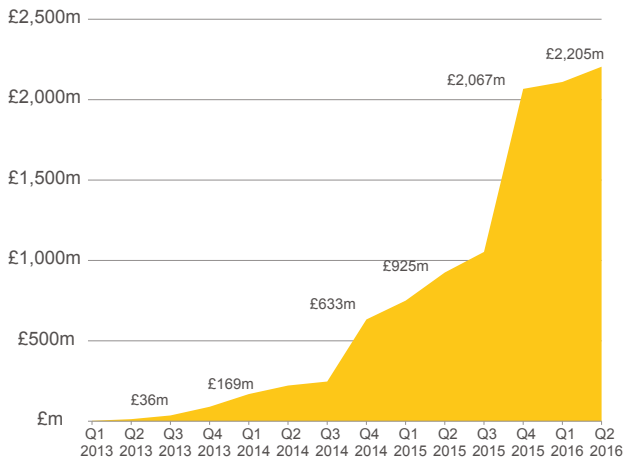
On 4 April 2016, Just Retirement and Partnership completed their merger to form JRP Group plc.

Whilst this reduced the number of insurers currently active in the bulk annuity market from nine to eight, we don't expect the merger to have a material impact on the bulk annuity market as a whole. The number of insurers competing for bulk annuity business is still up by 60% from the start of 2013, and this has been further buoyed by Canada Life's and Scottish Widows' strong appetite, as per the points made on the previous pages.

However, the merger has inevitably had a more significant impact on the medically underwritten buy-in market.

Just Retirement and Partnership pioneered the medically underwritten buy-in market, completing the first transactions in this part of the bulk annuity market in 2013. Since then, the medically underwritten buy-in market saw rapid growth and has now covered over £2 billion of liabilities, as shown in the chart below.

Figure 4: Cumulative value of MU buy-ins



> "We expect further penetration of medically underwritten de-risking transactions in the next 12 months as trustees and sponsors see best value."

Tim Coulson, Director of DB Solutions at JRP Group

Indeed, medically underwritten buy-ins represented over 12.5% of all bulk annuities purchased by pension schemes during 2015 (i.e. for every £8 spent on bulk annuities in 2015, more than £1 was on medically underwritten buy-ins).

Part of the reason for this rapid growth was that, prior to their merger, Just Retirement and Partnership were fierce competitors, competing strongly on price to the benefit of DB pension schemes. The merger has ended that fierce competition.

Aviva and Legal & General are the only other insurers to have transacted in the medically underwritten buy-in market, completing one transaction each. However, Aviva's appetite for this type of buy-in has been very limited and Legal & General has only shown strong interest in the largest medically underwritten buy-ins.

In 2015, LV= considered entering the bulk annuity market – specifically the medically underwritten buy-in market, but has since confirmed that it will not enter this market over the medium term.

So there is a risk that some pension schemes keen on medically underwritten buy-ins will now only have JRP interested in quoting on their transaction. Whilst we expect that experienced advisers in this market could still be able to obtain an excellent price, despite this lack of competition, this lack of competitive tension could limit the growth of this market in the short-term. Instead, we expect that the traditional, non-medically underwritten buy-in market, supported by the increased competition from Canada Life and Scottish Widows, will be the preferred route for many for the time being.

Our view

Given that it has removed some fierce price competition from this part of the market, we believe that the JRP merger presents some challenges for the medically underwritten buy-in market over the short-term.

However, in reaction to this, we expect that JRP will:

1. develop its proposition to give trustees and sponsors the confidence that medical underwriting remains a cost effective way of transferring risk to insurance companies; and
2. be more active in the traditional, non-medically underwritten buy-in market.

Point 1. means that we expect that 'top sliced' medically underwritten buy-ins, which insure the concentrated risks associated with the pensioners with the highest individual liabilities in a pension scheme, will continue to be popular. This will be helped by pension schemes partnering with experienced advisers to ensure they still obtain an excellent price, despite the reduced competition.

Hymans Robertson has been the leading pioneer in the medically underwritten buy-in market, having advised on 1 in 4 of all medically underwritten buy-ins, including advising FTSE 100 sponsors and trustees and having structured the first 'top sliced' medically underwritten buy-in.

Michael Anderson
Risk Transfer Specialist
michael.anderson@hymans.co.uk

2 Insurance company strategies

How these are affecting the bulk annuity market

Insurance companies looking to sell their own legacy annuity portfolios

The requirement for insurers to hold additional capital and the extra complexity caused by Solvency II (see Section 3 on regulation for further details), has increased insurers' focus on making best use of their capital. The general trend has been towards insurers focusing on core markets where they have a competitive advantage. In turn, this has led to some players increasing their appetite for bulk transactions while others decide to essentially dispose of their legacy annuity back books.

The positive news for DB pension schemes is that seven of the eight insurers currently in the bulk annuity market have concluded that they remain very keen on managing existing annuity business and writing new bulk annuities. This includes Aviva, for example, who carried out a strategic review of their appetite in this area in early 2016, concluding that they remain attracted to bulk annuity business, and recent activity from them clearly backs this up.

Prudential's position in this area is unfolding. Indeed, speaking at Prudential's investor day in January 2016, Chief Financial Officer Nic Nicandrou told shareholders that it would not be continuing its previous bulk annuity volumes and to "expect reduced new annuity volumes going forward".

By comparison, Aegon categorically decided that annuities were no longer core and so sold its individual and bulk annuity portfolio in two slices in the first half of 2016 - £6bn of which was bought by Rothesay Life in April 2016 and the remaining £3bn bought by Legal & General in May 2016. Several other insurers with largely legacy, non-core, annuity portfolios are expected to follow suit, so that they can release capital and use it elsewhere in the core parts of their business.

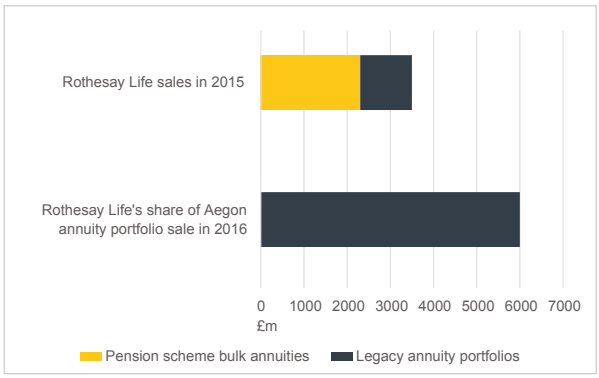
Increasing volumes of legacy annuity portfolio sales uses up bulk annuity market players' capacity. This is significant for DB pension schemes looking to complete buy-in or buy-out transactions because, over the next few years, they could effectively be competing with insurance companies selling legacy annuity portfolios in terms of securing capacity for transactions. From a bulk annuity market player's perspective, other insurers make particularly attractive customers – they are expert counterparties to engage with, looking to transact bulk annuities in large volumes, typically have 'ready made' Solvency II friendly asset portfolios (from a matching adjustment perspective) and have already made a clear decision to transact.

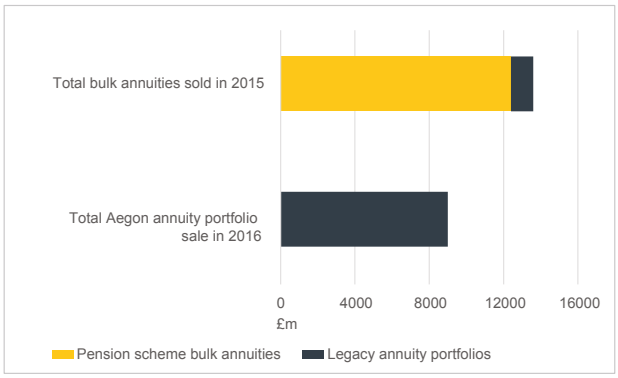
Indeed Rothesay Life's strategy, for example, very much recognises insurers selling legacy annuity portfolios as key future customers, in addition to their core DB pension scheme market.

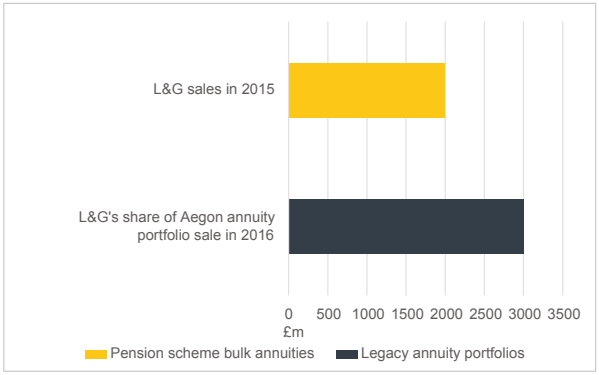
> "Solvency II has meant that many insurers are reorganising their balance sheet via the sale of their annuity portfolios. These transactions are now competing with pension scheme trustees for the focus of the active annuity writers."

Guy Freeman, Head of Business Development at Rothesay Life

Figure 5: The significance of the Aegon annuity book sale during 2016







As these charts illustrate, the total value of the Aegon transactions alone is around two thirds of the total volume of all bulk annuity business written during the whole of 2015 (which was the second largest year on record for this market). This begs the question, how much capacity remains for DB pension scheme bulk annuities over the next twelve months? We examine this question further later in the report.

Our view

In the short term, this raises the bar for DB schemes to demonstrate their readiness to transact.

In isolation, the fact that several more insurance companies are looking to sell their own legacy annuity portfolios to bulk annuity players poses challenges for DB pension schemes as it significantly increases the demand for bulk transactions, which will inevitably have a negative impact on pricing (unless supply can keep pace).

Once this period of restructuring in the insurance sector has run its course, there may be more capacity in the bulk annuity market for DB pension schemes again. Those schemes that are well prepared to capture opportunities (e.g. data cleansed, appropriate asset strategy and trustee and sponsoring employer governance in place to make efficient decisions) will be better placed to take advantage of this expected shift in the balance of demand between pension schemes and insurers.

Emma McWilliam
Head of Life and Financial Services
emma.mcwilliam@hymans.co.uk

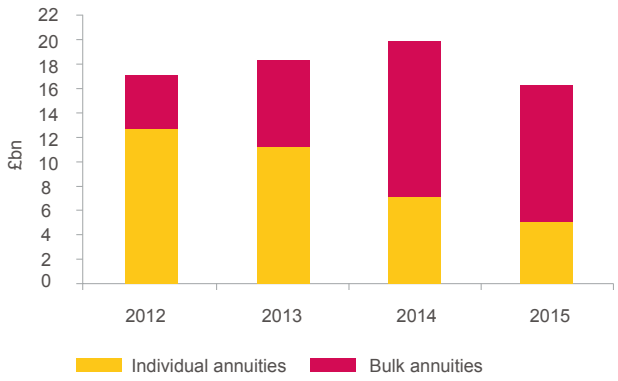
Remaining hangover from pensions freedom and choice changes

The "Pensions Freedom and Choice" announcement in the 2014 Budget removed the requirement for savers with money purchase pensions to purchase an annuity on retirement. This led to a collapse in sales of individual annuities (to one-third of their 2012 levels), which are not expected to recover significantly in the foreseeable future.

For insurers who were active in both the individual and bulk annuity market, the overnight impact of Pensions Freedom and Choice was to significantly increase their appetite to complete bulk annuity transactions, to make up for lost individual annuity sales.

On the back of this, 2014 was a record-breaking year for sales of bulk annuities, as insurers were keen to demonstrate that their businesses could cope with the changes to the individual market. Bulk annuity sales in 2015 were also significantly higher than 2012 or 2013. This is shown in figure 6.

Figure 6: New individual and bulk business written by insurers from 2012 to 2015 - the impact of Pensions Freedom and Choice



Source: PRA Insurance Returns and Hymans Robertson research.
Figures include all companies operating in either the individual or bulk annuity market in the UK. Data includes both immediate and deferred single-premium annuities. It has been assumed that all deferred annuities relate to bulk business, since the PRA Insurance Returns do not provide the precise split between bulk and individual.

Furthermore, as discussed in Section 1 on bulk annuity insurers, other insurers, in particular Canada Life and Scottish Widows, who were only active in the individual annuity market, reviewed their strategies and decided to become new entrants to the bulk annuity market. Their entrance to the market has had a positive impact on bulk annuity pricing during 2016. We also expect other insurers to enter this growing market in the coming years.

Our view

A continued positive development for DB pension schemes.

The 2014 Budget remains great news for defined benefit pension schemes looking to transfer risks via buy-ins and buy-outs, as it has significantly increased competition and appetite amongst insurance companies, and therefore reduced bulk transaction pricing.

Iain Pearce
Risk Transfer Specialist
iain.pearce@hymans.co.uk

Insurance company investment strategies

Insurance regulation strongly incentivises annuity providers to closely match assets and liabilities when setting their investment strategy. They invest in a portfolio of bond-like assets whose cashflows, after allowing for defaults and downgrades, replicate the predictable annuity liability outgo.

Many insurers adopt a "buy-and-hold" investment strategy, including a portfolio of potentially illiquid bonds to match the annuity cashflows. Given the predictability of its liabilities, the insurer is able to hold these bonds to maturity – it's not expected to be a forced seller at any point (ignoring defaults and downgrades) – therefore it's able to capture the additional return due to illiquidity on those bonds. The insurer can then include this illiquidity premium in the discount rate used to value its annuity liabilities.

The advantage of this approach is that it protects the insurer's balance sheet, to a degree, from movements in credit spreads. As spreads on the insurer's bonds widen, the liability discount rate increases – i.e. decreases in asset values are offset by reductions in the value of liabilities.

Insurers have a range of assets that they can use to efficiently back their annuity book, ranging from Government gilts to some much more illiquid investments that provide a good match for their cashflow commitments. Their investment strategy affects their pricing basis and so how insurers invest will impact how competitive they are from time to time. This is illustrated in Figure 7 , which shows the asset allocation for those companies that were most active in the pension scheme de-risking market during 2015.

Figure 7: Assets held by bulk annuity writers

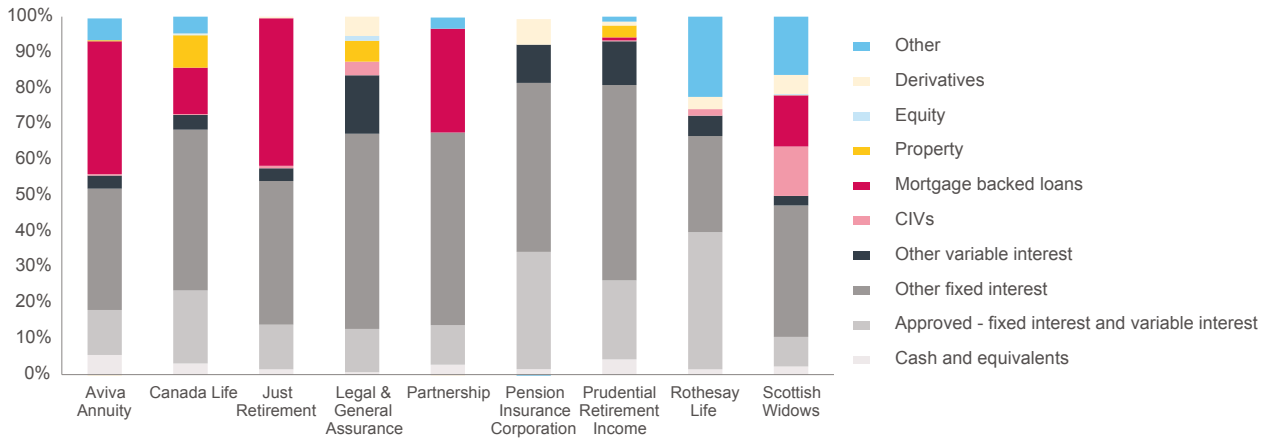


Figure 7 also shows that Aviva, Just Retirement and Partnership have material proportions of their portfolios invested in equity release mortgage assets.

Source: PRA Insurance Returns and Hymans Robertson research.
Figures are as at 31 December 2015 for all firms except Just Retirement, which is as at 30 June 2015
For Canada Life, Legal & General Assurance Society and Scottish Widows, only the assets held in the non-profit fund have been included.
For all firms, total assets in both Form 48 (non-linked) and Form 56 (index-linked) have been included.
Please note for some companies (for the funds shown in the chart) there may be some assets backing non-annuity business.

Over the past few years there has been a trend of annuity providers moving away from vanilla corporate bond investment strategies towards alternative forms of long-dated lending, which are typically more illiquid and therefore provide a higher illiquidity premium. These assets include infrastructure debt, commercial real estate loans and social housing loans. We have also seen increased use of overseas corporate bonds (hedged back to Sterling).

The growing competition in the bulk annuity market is only likely to fuel this trend – insurers need to optimise their investment strategies in order to maximise their competitiveness if they are to capture a sufficient share of the bulk market.

As well as yield, investing in alternative assets can benefit insurers in other ways, for example:

1. improving portfolio diversification;
2. additional security provided by underlying collateral; and
3. access to a wider universe of assets, making it easier to match long-dated liabilities.

The advent of the Solvency II regime has heightened the need to closely match assets and liabilities. Solvency II permits a "Matching Adjustment" to be included in the discount rate used to value annuity liabilities, to reflect the illiquidity premium being earned. However, for firms wishing to use this Matching Adjustment, Solvency II mandates a buy-to-hold strategy with bond-like assets and requires evidence of close cashflow matching. Trading within the annuity portfolio is only expected to be permitted where it can be demonstrated to be for risk management purposes.

Solvency II also imposes a large number of rules on assets in order for them to be "eligible" to qualify for the Matching Adjustment. Many of these become a hurdle for firms to overcome if they wish to continue to invest in alternative forms of lending. For example, many loans contain options allowing the issuer to repay the loan early. This is not permitted under Solvency II (i.e. renders the asset "ineligible") unless there is a prepayment penalty which is sufficient to allow the insurer to go out into the market and replace the lost cashflows without taking on any further credit risk.

Our view

The different investment strategies adopted by each insurance company, and market conditions at the time of a bulk transaction, will impact the relative competitiveness of each quote. It's important for pension schemes to be aware of these dynamics when planning for a buy-in.

Ross Evans
Head of Insurance Investment & ALM
ross.evans@hymans.co.uk

3 Regulation

Solvency II is an EU Directive that came into effect on 1 January 2016. It harmonises and sets out new insurance regulation across the EU, including the amount of capital that firms must hold to reduce the risk of insolvency.

The introduction of Solvency II

Whilst Solvency II originated from the EU, we don't expect it to be materially affected by the result of the Brexit referendum because Solvency II now also forms part of UK law, and UK insurers have been planning for Solvency II for many years.

Under Solvency II the objective is for an insurance company to:

- have sufficient capital to be able to withstand a 1-in-200 one-year negative event; and then also,
- be able to transfer the portfolio of insurance business to another insurer, without requiring additional funds.

This requires that the assets following the 1-in-200 one-year event must be greater than the best estimate liabilities. This is because a new insurer taking on the business would be exposed to certain risks that it could not hedge away. It would have to hold capital in respect of those risks, and the costs associated with holding this capital need to be reflected in the theoretical transfer value.

This difference between the best estimate liabilities and the theoretical transfer value is called the risk margin, and it can be large for stand-alone annuity businesses with a significant proportion of unhedged longevity risk.

Impact of Solvency II on bulk annuity pricing

During 2015, some market commentators suggested that Solvency II would increase pensioner buy-in pricing by a few percent, with much higher price increases for bulk annuities that cover deferred members.

However, in practice, we have not seen any change to pensioner buy-in pricing as a result of Solvency II, and we have seen more modest increases than those feared to prices for bulk annuities that cover deferred members.

> "Whilst Solvency II and heightened market volatility may have created new challenges for insurers, schemes are still able to execute transactions at attractive prices. For schemes that have done the necessary preparation work on data, benefits, governance and planning, insurers will view these favourably."

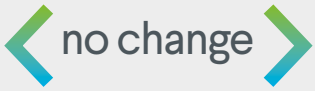
Emma Watkins, Bulk Annuities Director at Scottish Widows

Insurer survey - impact of Solvency II on buy-in pricing

At the end of June 2016 (i.e. six months into the Solvency II regime), we surveyed seven of the insurers in the bulk annuity market and the results were that:

Impact of Solvency II on…

(i) pensioner buy-in pricing:



All except one of the bulk annuity insurers confirmed that they did not believe that Solvency II has had an impact on their pricing for pensioner buy-ins.

(ii) deferred member buy-in pricing:

Of the insurers that offer bulk annuities for deferred members, the average price increase due to Solvency II has only been around 2%.

The following seven insurers took part in this survey:

Aviva, L&G, JRP, PIC, Prudential, Rothesay Life and Scottish Widows

The insurers have been able to maintain competitive pensioner buy-in pricing by carefully revising their asset and longevity reinsurance strategies during 2016 to optimise their positions under Solvency II – more on this to follow.

However, whilst the winning insurer pricing has remained at a very similar level to the attractive levels that we saw in 2015, we have seen significant variation in both the:

- range of buy-in pricing for a particular transaction. With the winning insurer regularly offering a price that is more than 10% lower than the least competitive insurer; and
- relative competitiveness of an insurer from one transaction to the next. With the most competitive insurer on one transaction being uncompetitive on a subsequent transaction.

Asset strategies more important than ever under Solvency II

A key reason for the increased price variation described is that, in order for an insurance company to be able to offer a competitive price, Solvency II effectively requires the insurer to have assets lined up that very closely match the cashflow profile of the particular pensioner group in question. The assets available to an insurer at a particular point in time will inevitably suit some transactions more than others. For example, an insurer might have access to an asset with attractive risk and return characteristics that is long-dated (i.e. the cashflows continue for many years into the future). This will mean that the insurer is more competitive for a buy-in that is covering younger pensioner members, whose pension payments will also continue for many years and so are well matched by the asset. This means that the insurer benefits from improved treatment under Solvency II and so is able to offer a particularly competitive price.

Consultancies obtain regular pricing information from the bulk annuity insurance companies and this can be used to monitor how general buy-in pricing is moving. However, the Solvency II induced price variation described on the previous pages means that now, more than ever, if trustees or sponsoring employers are interested in a buy-in for their pension scheme, there is no substitute for engaging with the insurance companies and obtaining real pricing from them that is completely bespoke to the pensioner population in question.

Consultants monitoring pricing is akin to looking up how much your house might be worth on the internet – you will get a ballpark indication of value and will be able to establish how general pricing is changing over time.

Insurers quoting on your pensioner buy-in population is akin to putting your house on the market – you will get actual transactable pricing that fully reflects your situation and the precise market appetite at that time.

Furthermore, you can then set the insurers a challenging price target, at a level which you would be willing to transact. The insurers will then monitor the precise level of price movements for you and they will come to you when they are able to meet your target.

The importance of longevity reinsurance under Solvency II

Under Solvency II, insurers have to hold a risk margin for any longevity risk that hasn't been hedged when they complete a bulk annuity transaction. This is in addition to the risk capital that they have to set aside for that unhedged longevity risk. Therefore, all else being equal, the cost of insuring unhedged longevity risk as part of a buy-in has increased as a result of the introduction of Solvency II.

Insurer survey – impact of Solvency II on reinsuring longevity risk

At the end of June 2016 (i.e. six months into the Solvency II regime), we surveyed seven of the insurers in the bulk annuity market and the results were that:

All except one of the bulk annuity insurers expect to reinsure a material proportion (between 50% and 100% and on average over 70%) of the longevity risk associated with new buy-in transactions over the next year.

The following seven insurers took part in this survey:
Aviva, L&G, JRP, PIC, Prudential, Rothesay Life and Scottish Widows

2/3rds
of the insurers have put in place "treaties" with reinsurance companies to allow them to automatically reinsure longevity risk as and when they complete new buy-in transactions.

1/3rd
of the insurers will look to fix up a bespoke longevity hedge with a reinsurance company in conjunction with each future buy-in transaction.

In the past, several of the insurance companies in the bulk annuity market, particularly the largest insurers, did not look to reinsure longevity risk – instead looking to pool this risk across the many lives in their annuity portfolios.

However, a direct consequence of Solvency II is that the insurance companies in the bulk annuity market have needed to significantly change their longevity hedging strategies, in order to remain competitive. In particular, nearly all insurers now look to reinsure a significant proportion of their new longevity risk, and to have clear processes in place to do this in tandem with each buy-in transaction that they complete.

Our view

So, from now on, the global reinsurance market will play an increasingly important role in buy-in transactions. The good news for DB pension schemes is that for the time being, there is significant competition and appetite amongst global reinsurance companies to take on UK longevity risk, which is helping to keep pensioner buy-in pricing nicely competitive.

However, over time, UK pension schemes will inevitably need to compete more and more with increased demand from pension schemes in other countries, who will gradually catch up with the UK in terms of their appetite to insure risk. Whether global reinsurance companies have the appetite and capacity to take on significant increases in longevity risk from around the world remains to be seen.

What is clear is that having the best possible understanding of your pension scheme's longevity risk, including mortality experience data and pensioner spouse information, will put you in the strongest position to achieve the best possible price for your next buy-in transaction, ensuring that you make the right risk transfer decisions, with confidence.

Eddie McAuley
Partner and Risk Transfer Specialist
eddie.mcauley@hymans.co.uk

4 Demand from pension schemes

Pension scheme finances have been stretched for much of the last decade, compounded further by the ultra-low long-term interest rates following the Brexit referendum.

However, rather than sitting tight and waiting for financial conditions to improve, we are strong advocates of trustees and sponsoring employers taking proactive steps to chip away at the problem and to capture opportunities to reduce risk in stages. Buy-ins are a key component of such a proactive approach.

Figure 8: Proactively capturing opportunities to reach self-sufficiency via a series of well-planned buy-ins

> In 2016, we have seen a number of pension schemes approaching the bulk annuity market to implement further de-risking, having completed buy-ins previously. This demonstrates that trustees and sponsors value buy-ins as a risk management tool, and that the idea of a staged journey to buy-out is becoming a more popular de-risking strategy.

Emma Watkins, Bulk Annuities Director at Scottish Widows

There are many advantages of aiming to reach self-sufficiency via a series of well-planned buy-ins, rather than waiting to try to do it all in one go, via a buy-out, at the end of your road to resilience. One advantage is that the demand from other pension schemes to complete buy-ins and buy-outs will inevitably grow. We expect that times when demand outstrips supply from insurance companies will become more and more common in the future. As demand grows, the pension schemes that have already completed a buy-in will be at the front of the queue in the eyes of insurance companies when deciding who should be offered the best pricing.

If you were an insurance company with limited resource and capital, would you prioritise a trustee or sponsoring employer who has:

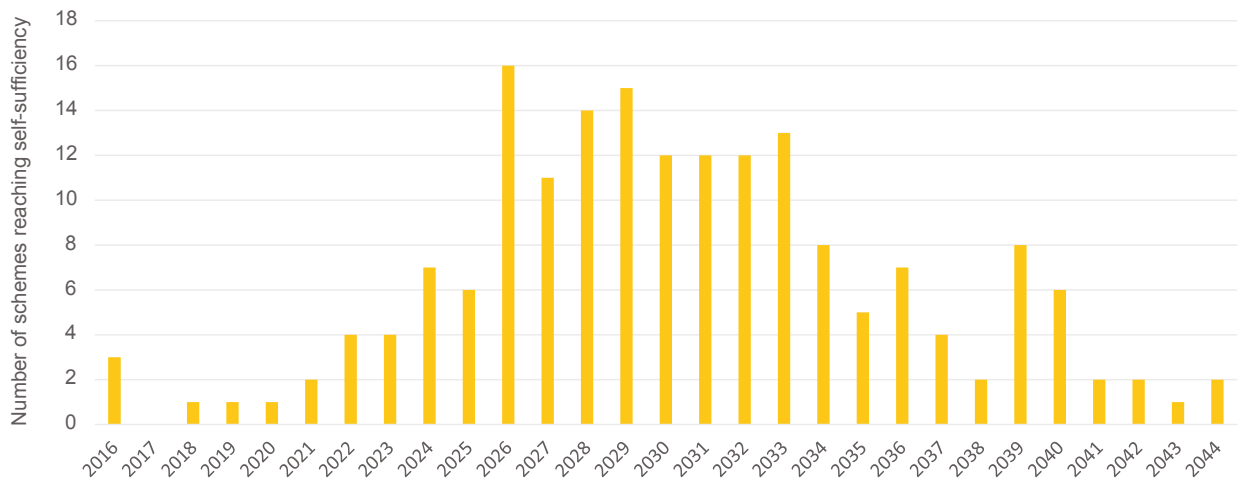
- already completed a buy-in, and so demonstrated their keenness to transact, their understanding of process and that they have the governance in place to make effective decisions in this area; or
- never completed a buy-in?

It's a 'no brainer'. Insurers will inevitably favour those trustees and sponsoring employers who have already completed a buy-in.

So how quickly will pension scheme demand for bulk annuities grow in the future?

To answer this question we have analysed all of the DB pension schemes sponsored by FTSE 350 companies. In particular, we have looked at how quickly the FTSE 350 sponsored pension schemes are likely to be able to reach a fully funded, self-sufficient position. By which time, they will have been able to insure the majority of their liabilities via a series of buy-ins. The results of this analysis are set out in the chart below:

Figure 9: Calendar year in which FTSE 350 sponsored DB pension schemes are expected to reach self-sufficiency



The key headlines from this analysis are:

> 3 years

increase in the average time it will take DB pension schemes to reach self-sufficiency due to the material fall in long-term interest rates following the Brexit referendum.

> 50%

of all FTSE 350 pension schemes are expected to reach self-sufficiency by 2030 despite this.

= £200billion

demand from FTSE 350 sponsored pension schemes to complete buy-ins over the next 10 years.

Scaling this up to cover all private sector UK DB schemes:

£350billion

demand from all DB pension schemes to complete buy-ins over the next 10 years.

= 3x

Current level of annual demand for buy-ins.

> over next 10 yrs

DB pension schemes and insurance companies will look to purchase additional gilts of more than £300 billion. To put this significant demand into context, in the last three years, the Government has only issued £180 billion of new gilts in total.

> "The additional uncertainty that results from Brexit will provide an increased opportunity for transactions to be done, if trustees are willing to work closely with insurer(s) to take advantage as they arise. We expect this to accelerate the trend of schemes choosing a preferred provider early in the process."

Nick Johnson, Managing Director of Bulk Purchase Annuities at Aviva

Insurer survey – bulk annuity appetite and capacity over the next 12 months

At the end of June 2016, we asked all of the insurers in the bulk annuity market to provide details of their appetite and capacity for bulk annuities over the next 12 months.

Figure 10: Insurer bulk annuity appetite and capacity

- This survey and analysis shows that the insurance companies currently active in the bulk annuity market have appetite and capacity to complete around £23 billion of bulk annuity transactions over the next 12 months.
- This appetite and capacity includes transactions to purchase other insurance company's legacy annuity portfolios, as well as buy-ins and buy-outs for DB pension schemes.
- Notwithstanding this, this is likely to leave around £18 billion of appetite and capacity for DB pension scheme bulk annuity transactions over the next year to 30 June 2017 - around a third more than the level of actual transactions in 2015.

Our view

This analysis shows that, over the medium term, the likely levels of demand from DB pension schemes to complete bulk annuity transactions is likely to exceed, by some distance, the capacity and appetite that the eight insurers currently active in this market are able to supply.

Those trustees and sponsoring employers taking proactive steps to chip away at their deficit, and to capture opportunities to reduce risk in stages, including strategies to enter into successive buy-ins, are likely to reach the end of their road to resilience in the quickest and most cost effective way.

Freya Williams
Risk transfer Specialist
freya.williams@hymans.co.uk

5 Risk transfer market data

Buy-outs and buy-ins - Deals during Q1 2016

The total value of buy-out and buy-in deals struck in Q1 2016 was around £0.9 billion, around £12.5 billion for the year to 31 March 2016, ("the last year").

Buy-out and buy-in deals Year to 31 March 2016	Number of deals completed					Value of deals completed				
	Q2	Q3	Q4	Q1	Total	Q2	Q3	Q4	Q1	Total
Aviva	10	7	14	-	31	£405m	£78m	£499m	TBC	£982m
Canada Life	-	-	2	-	2	-	-	£32m	-	£32m
Legal & General	8	15	26	-	49	£502m	£92m	£739m	TBC	£1,333m
Pension Insurance Corporation	4	2	5	1	12	£640m	£259m	£2,872m	£890m	£4,661m
Prudential	2	2	2	-	6	£1,170m	£317m	£21m	TBC	£1,508m
JRP Group plc	9	8	27	4	48	£206m	£128m	£784m	£43m	£1,160m
Rothesay Life	1	1	3	-	5	£675m	£1,600m	£145m	-	£2,420m
Scottish Widows	-	-	1	-	1	-	-	£400m	-	£400m
Total	**34**	**35**	**80**	**5**	**154**	**£3,598m**	**£2,474m**	**£5,491m**	**£933m**	**£12,496m**

Aviva, Legal & General and Prudential will now be reporting results on a half yearly basis. Therefore the risk transfer data throughout this report for those insurers for Q1 2016 is only based on information that we are aware of in the public domain. Their actual figures for Q1 2016 will be updated when they are released after the end of Q2 2016.

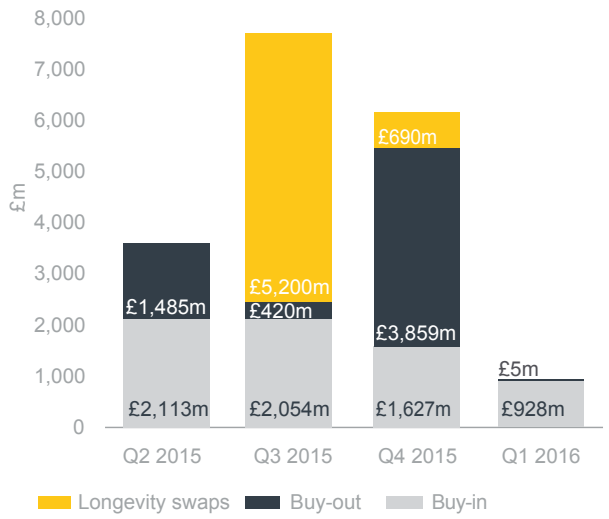
Longevity swaps - Deals during Q1 2016

There were no publicly reported longevity swaps completed in Q1 2016. Thirty-three deals, covering liabilities worth around £56.4 billion, have been completed between 30 June 2009 and 31 March 2016.

Organisation	Date	Number of pension schemes	Provider	Approximate value of deal (on a buy-in basis)
Babcock	Q3 2009	3	Credit Suisse	£1.2 bn
RSA Insurance	Q3 2009	2	Goldman Sachs/Rothesay Life	£1.9 bn
Berkshire	Q4 2009	1	Swiss Re	£1 bn
BMW	Q1 2010	1	Deutsche Bank/Abbey Life	£3 bn
Pall	Q1 2011	1	JP Morgan	£0.1 bn
ITV	Q3 2011	1	Credit Suisse	£1.7 bn
Rolls Royce	Q4 2011	1	Deutsche Bank/Abbey Life	£3 bn
British Airways	Q4 2011	1	Goldman Sachs/Rothesay Life	£1.3 bn
Pilkington	Q4 2011	1	Legal & General	£1 bn
Azko Nobel	Q2 2012	1	Swiss Re	£1.4 bn
LV=	Q4 2012	1	Swiss Re	£0.8 bn
BAE Systems	Q1 2013	1	Legal & General	£3.2 bn
Bentley	Q2 2013	1	Deutsche Bank/Abbey Life	£0.4bn
Carillion	Q4 2013	5	Deutsche Bank/Abbey Life	£1bn
AstraZeneca	Q4 2013	1	Deutsche Bank/Abbey Life	£2.5bn
BAE Systems	Q4 2013	2	Legal & General	£1.7bn
Aviva	Q1 2014	1	Own insurer conduit	£5bn
BT	Q2 2014	1	Own insurer conduit	£16bn
PGL	Q3 2014	1	Own insurer conduit	£0.9bn
MNOPF	Q4 2014	1	Own insurer conduit	£1.5bn
ScottishPower	Q4 2014	1	Abbey Life	£2bn
AXA UK	Q3 2015	1	RGA	£2.8bn
Heineken	Q3 2015	1	Aviva	£2.4bn
RAC (2003) Pension Scheme	Q4 2015	1	Scor Se	£0.6bn
Unnamed	Q4 2015	1	Zurich/Pac Life Re	£0.1bn
Total to date		**33**		**£56.4bn**

Risk transfer deals (including longevity swaps)

Total pension scheme risk transfer deals over the last year, including longevity swaps, covered liabilities of around £18.4 billion. Since 30 June 2009 the longevity swap market has now seen deals covering £56.4bn of liabilities.



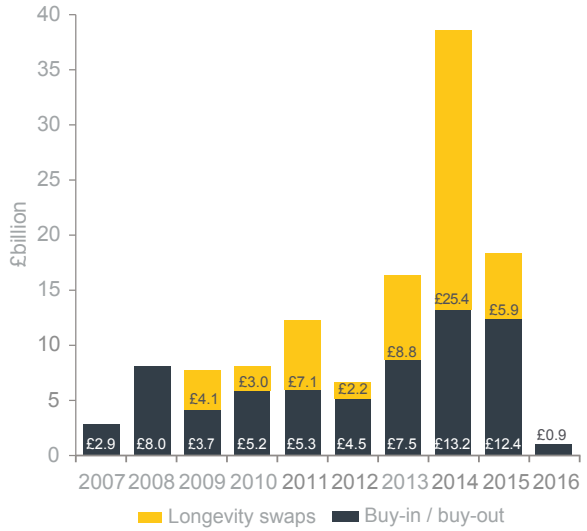
Average buy-in and buy-out deal size

The overall average buy-in/buy-out deal size for the last year was £82m, which is an increase on the average over the previous year (£59m). The average deal size during the last year varied significantly between the different insurers.

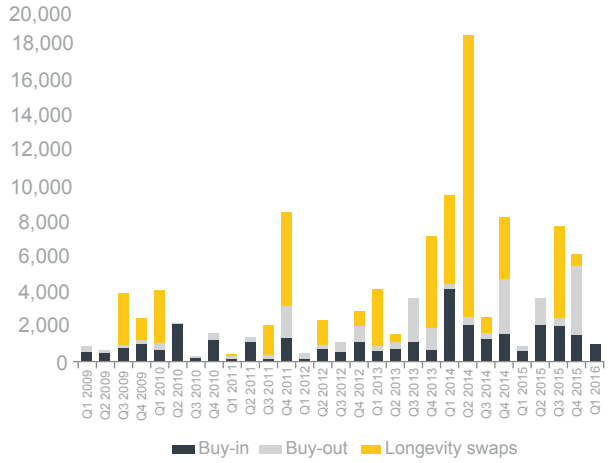
Insurers	Average deal value
Aviva	£32m
Canada Life	£16m
Legal & General	£27m
Pension Insurance Corporation	£388m
Prudential	£251m
JRP Group	£24m
Rothesay Life	£484m
Scottish Widows	£400m
Overall average	£82m

Results for Just Retirement and Partnership have been combined under JRP Group plc.

Volume of risk transfer deals since 2007 up to Q1 2016



Quarterly risk transfers since 2009



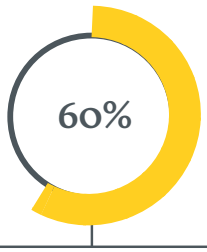
Proven experience and unrivalled innovation

The reason we look across the whole process and supply chain of risk transfer is to provide you, our clients, with the best insight, helping you achieve a better solution at the right price for you. We really understand how insurers and reinsurers work. Indeed, we separately advise:

Insurers:

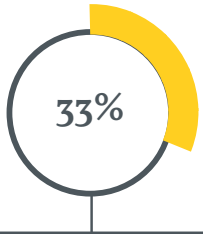
7 of the 9 insurers who offer buy-ins and buy-outs; and

Reinsurers:

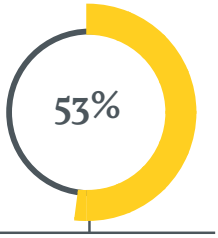


of the global reinsurers who take on longevity risk as part of a buy-in, buy-out or longevity swap.

Our expertise means that we have advised on:



of all pension scheme risk transfer deals, by value



of all longevity swaps, by value

1 in 4 of all medically underwritten buy-ins

15 risk transfer transactions over £100m

Hymans Robertson risk transfer team "firsts"

Here are some examples of innovative transaction structures we've advised on:

Largest buy-out
Trustee actuarial and investment adviser for a £2.5bn buy-out. Including innovative range of choices to members

1st Direct longevity swap
Lead adviser on first ever longevity swap to directly access reinsurance market (£5bn)

1st MU buy-ins
Lead adviser on the first meaningful sized medically underwritten buy-ins with both Just Retirement and Partnership

Largest longevity swap
Advised the reinsurance company on the largest ever longevity swap

1st price lock for sub £100m buy-in
Structured the first price lock for a buy-in of less than £100m, removing all price movement risk for our pension scheme client

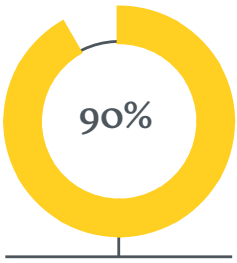
1st for data insight
Partnerships with leading insurers and reinsurers which share insight on pensioner mortality experience, critical for pricing all risk transfer transactions

Proven process

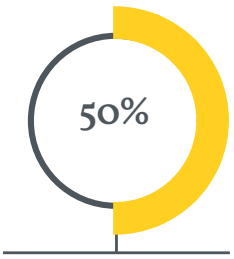
You will benefit from our tried and tested processes, having advised on over 100 risk transfer deals.

Our unrivalled access to longevity risk data through Club Vita, and our advice to insurers and reinsurers mean we deliver better results for you.

We understand the best time for you to transact and save costs on unnecessary processes.



Hymans Robertson conversion rate



Average industry conversion rate

Average cost of failed buy-in

Average cost of failed longevity swap

Appendices

Insurer summary insights

Aviva
Canada Life
JRP Group
Legal & General
Pension Insurance Corporation
Prudential
Rothesay Life
Scottish Widows

Insurer summary insights

Aviva

August 2016

Since 2009

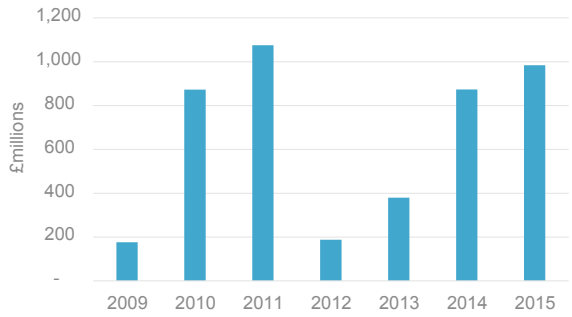
Deals completed	Value of deals	Annual variation in transaction volume
› 315	› £4.5bn	£431m

Average transaction size
£14m

2015

Market share	Number of deals	Average deal size
7.9%	34	£29m

Aviva – volume of pension scheme buy-in and buy-out transactions



Source: Hymans Robertson quarterly risk transfer report
Excludes Friends Life companies

Hymans Robertson's perspective

Since 2009, the annual variation in new business written has been volatile, albeit with some short-term volatility, as can be seen from the chart above. Over this period, the annual average variation was £431m.

Noteworthy recent transactions

Buy-ins

Interserve	TKM Group	Heineken	Aviva
2014	2015	2015	2014
£338m	£297m	£2,400m*	£5,000m**

Source: Hymans Robertson quarterly risk transfer report

*written through Friends Life subsidiary

**own pension scheme: Aviva Life acted as a "pass through" entity only, to allow the pension scheme to access the reinsurance market

Appetite by transaction size

Aviva

<£50m	£50m - £100m	£100m - £500m	>£500m
Target market	Target market	Target market	More selective

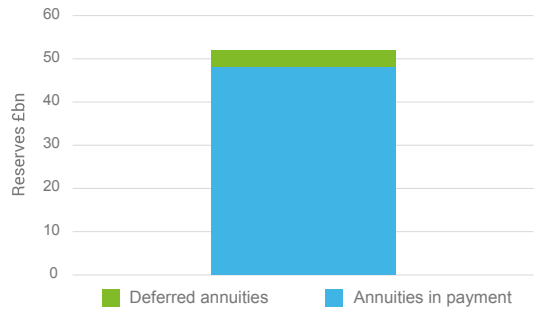
Key: Target market More selective Unlikely to quote

Source: Hymans Robertson research

Hymans Robertson's perspective

Aviva typically tend to focus on smaller and medium sized deals although they will quote on occasional larger transactions. This is borne out by the transactions that they have carried out: these include a number of large transactions such as the TKM buy-in, but the overall average transaction size since 2009 is £14m, which shows that they have also completed a large number of mainly smaller transactions.

Aviva - annuity reserves 31 December 2015

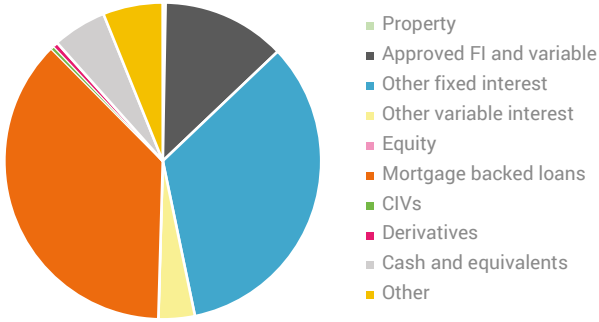


The reserves shown are gross of external reinsurance
Source: PRA insurance returns, as at 31 December 2015
Covers all UK companies in Aviva Group (including Friends Life)

Hymans Robertson's perspective

Aviva also write deferred annuities, usually as part of buy-out transactions. These tend to be less common, due to issues of affordability. This can be seen from the relative level of reserves that Aviva hold in respect of annuities.

Annuity asset strategy



Source: PRA insurance returns and Hymans Robertson research, as at 31 December 2015 (Forms 48 and 56, Aviva Annuity)

Hymans Robertson's perspective

Aviva's annuity-backing assets have a significant allocation to mortgage-backed loans, which is split between commercial real estate debt and equity release mortgages. Equity release mortgages are typically products where the customer is advanced a loan, secured on their home, which becomes repayable only when the individual dies or moves into long-term care. Aviva Annuity also invests in healthcare, infrastructure and PFI loans. Please note that this asset breakdown reflects the mixture of individual and bulk annuities written to date.

Financial strength – Aviva Annuity

S&P Financial Strength Rating	Moodys Insurance Financial Strength Rating	AKG
A+	**A1**	**"A"** (superior)
(August 2016) Note: parent company rating – Aviva Life & Pensions	(August 2016) Note: parent company rating – Aviva Life & Pensions	(as at December 2015) Ratings are by AKG Financial Analytics Ltd and are reproduced with permission.

The Capital Resources Requirement Coverage Ratio (CRRCR)

244%

(December 2015)

Administration:

Aviva administer their schemes in-house.

Insurer summary insights

Canada Life

August 2016

Since 2015

Value of deals	Number of deals	Average deal size
£65m	**3**	**£22m**

Noteworthy recent transactions

Buy-ins

Undisclosed	Undisclosed
2015	2015
£35m	**£27m**

Oundle School

2015

£5m*

*first bulk annuity transaction

Source: Hymans Robertson quarterly risk transfer report

Hymans Robertson's perspective

Track record and recent transactions

Canada Life re-entered the bulk annuity market in early 2015, having not participated in this market for a number of years. It is focusing on smaller deals initially as it gains experience and builds a presence in the bulk annuity market. Whilst being a new entrant in the bulk market, they provide annuity income to over 350,000 individual annuitants in the UK.

Appetite by transaction size

Canada Life

< £50m	£50m - £100m	£100m - £500m	> £500m
Target market	Target market	More selective	Unlikely to quote

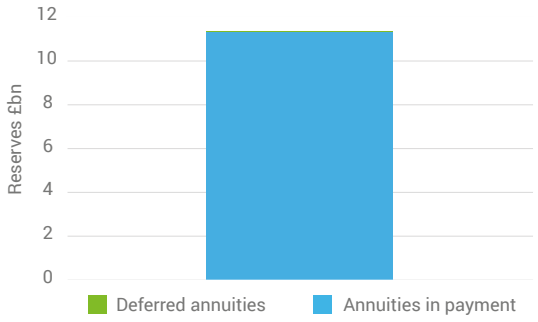
Key: Target market More selective Unlikely to quote

Source: Hymans Robertson research

Hymans Robertson's perspective

Canada Life are focusing on smaller transactions (i.e. below £100m) as they build their proposition. This is illustrated in the table below. Their largest transaction to date has been of the order of £30m.

Canada Life - annuity reserves 31/12/15



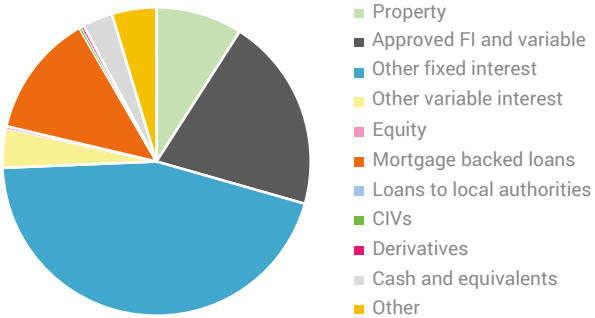
The reserves shown are gross of external reinsurance

Source: PRA insurance returns, as at 31 December 2015

Hymans Robertson's perspective

Canada Life does not currently write annuities covering deferred members for bulk transactions. It has a very small amount of deferred annuity business on its books relating to legacy business.

Annuity asset strategy



Source: PRA insurance returns and Hymans Robertson research, as at 31 December 2015 (Forms 48 and 56, Non-Profit Fund of Canada Life Limited)

Hymans Robertson's perspective

Around 60% of Canada Life's annuity-backing assets are invested in fixed-income securities (e.g. corporate and government bonds). The company has also significant allocations to property and mortgage-backed loans. The property allocation may include sale and leaseback transactions that Canada Life has entered into in the past. Please note that this asset breakdown will reflect the approach used for Canada Life's individual annuity policies, and the strategy for bulk annuity policies could be different from this.

Financial strength – Canada Life Limited

S&P Financial Strength Rating	Moodys Insurance Financial Strength Rating	AKG
AA	**Aa3**	**"B+"** (very strong)
(August 2016)	(August 2016)	(as at January 2016)
Note: parent company rating – The Canada Life Assurance Company	Note: parent company rating – The Canada Life Assurance Company	Ratings are by AKG Financial Analytics Ltd and are reproduced with permission.

The Capital Resources Requirement Coverage Ratio (CRRCR)

163%

(December 2015)

Administration:

Canada Life administer their schemes in-house.

Insurer summary insights

JRP Group

August 2016

Since 2009

Deals completed	Value of deals	Average transaction size
› 90	› £2bn	£22m

2015

Market share	Number of deals	Average deal size
9.9%	51	£24m

Noteworthy recent transactions

Buy-ins

Taylor Wimpey	Kuwait Petroleum
2014	2015
£206m	£42m

Buy-outs

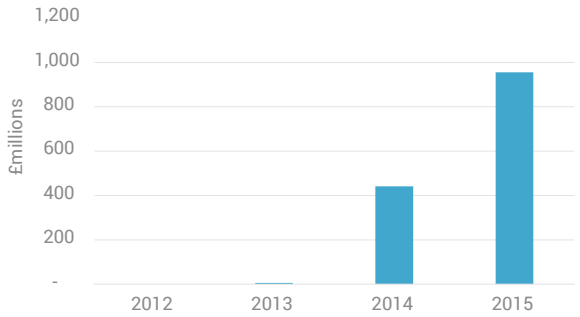
Undisclosed

2015

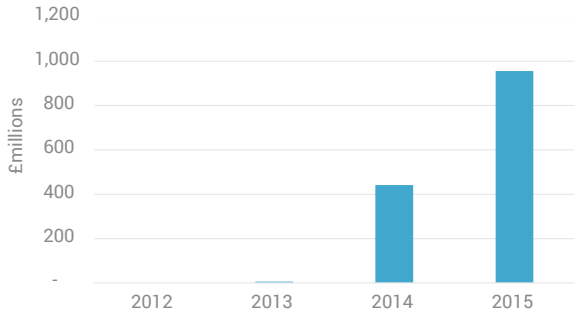
£58m

Source: Hymans Robertson quarterly risk transfer report

Just Retirement – volume of pension scheme buy-in and buy-out transactions



Partnership – volume of pension scheme buy-in and buy-out transactions



Source: Hymans Robertson quarterly risk transfer report

Hymans Robertson's perspective

Both Just Retirement and Partnership entered the pension scheme de-risking market in 2013 and we therefore have only two full years' worth of sales data for them. Both companies increased new business sales between 2014 and 2015. Just Retirement has written a greater volume of business than Partnership. In the future, all new bulk annuity business will be written through the Just Retirement entity.

Appetite by transaction size

Just Retirement and Partnership

<£50m	£50m - £100m	£100m - £500m	>£500m
Target market	Target market	More selective	Unlikely to quote

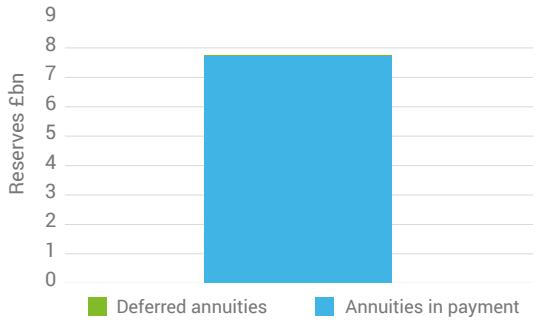
Key: Target market More selective Unlikely to quote

Source: Hymans Robertson research

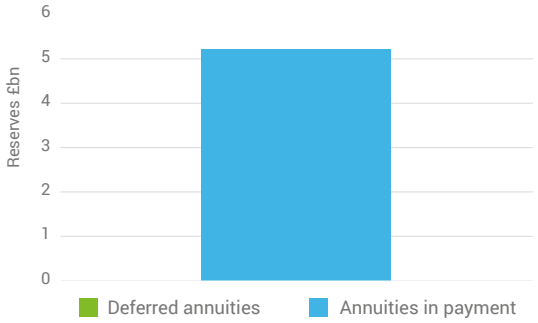
Hymans Robertson's perspective

Just Retirement and Partnership typically tend to focus on smaller deals (i.e. less than £100m) although they will quote on occasional larger transactions. This is illustrated in the table above. This is borne out by the transactions that they have carried out: since 2012 their average transaction size has been £22m.

JR - annuity reserves 31/12/15



Partnership - annuity reserves 31/12/15

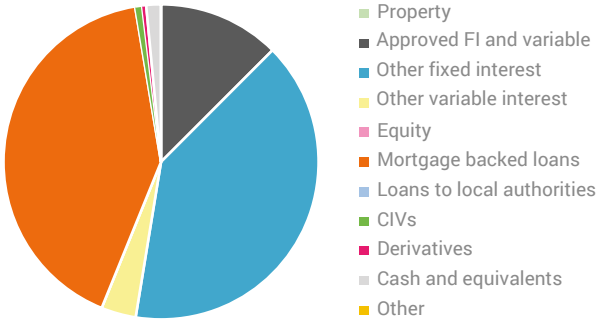


The reserves shown are gross of external reinsurance
Source: PRA insurance returns, as at 31 December 2015

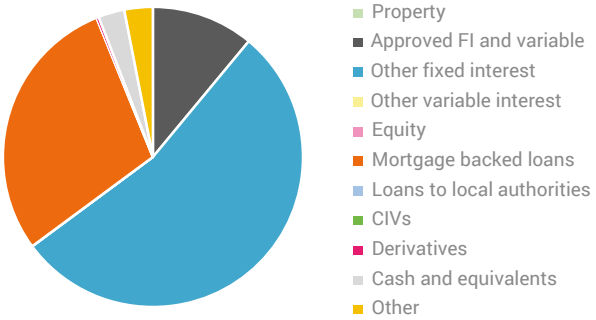
Hymans Robertson's perspective

Just Retirement also selectively write deferred annuities as part of buy-out transactions, however they do not have a particular appetite to take on this type of liability. This can be seen from the relative level of reserves that Just Retirement hold in respect of annuities, shown in the chart above.

JR - annuity asset strategy



Partnership - annuity asset strategy



Source: PRA insurance returns and Hymans Robertson research, as at 31 December 2015 (Forms 48 and 56)

Hymans Robertson's perspective

Just Retirement and Partnership have broadly similar investment strategies. They both have significant investments in equity release mortgages. These are typically products where the customer is advanced a loan, secured on their home, which becomes repayable only when the individual dies or moves into long-term care. The remaining assets are mostly invested in fixed income securities, such as government and corporate bonds.

Financial strength

Just Retirement	Partnership
AKG "B" (strong) (as at January 2016) Ratings are by AKG Financial Analytics Ltd and are reproduced with permission.	AKG "B" (strong) (as at November 2015) Ratings are by AKG Financial Analytics Ltd and are reproduced with permission.
The Capital Resources Requirement Coverage Ratio (CRRCR) **166%**	The Capital Resources Requirement Coverage Ratio (CRRCR) **234%**

Administration:

Just Retirement outsources their administration to JLT Benefit Solutions, while Partnership outsources their administration to JLT Benefit Solutions and Capita.

Insurer summary insights

Legal & General

August 2016

Since 2009

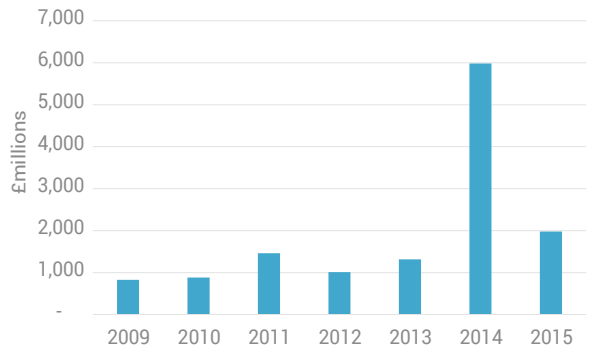
Deals completed	Value of deals	Annual variation in transaction volume
› 570	› £13bn	£346m

Average transaction size
£23m

2015

Market share	Number of deals	Average deal size
15.9%	64	£31m

L&G – volume of pension scheme buy-in and buy-out transactions



Source: Hymans Robertson quarterly risk transfer report

Hymans Robertson's perspective

Since 2009, the annual average variation in new business written has been relatively consistent, with the exception of 2014. This is due to the TRW partial buy-out and ICI buy-in, worth a combined £5.6bn, in 2014. Excluding this outlier, the average annual variation in transaction volume over the period was £346m.

Noteworthy recent transactions

Buy-ins

ICI 2014	ICI 2015	Kingfisher 2015
£3,000m	£500m	£230m*

Buy - outs

TRW 2014
£2,500m

Longevity swaps

BAE Systems 2013
£4,900m

*medically underwritten

Source: Hymans Robertson quarterly risk transfer report

Appetite by transaction size

Legal & General

<£50m	£50m - £100m	£100m - £500m	>£500m
●	●	●	●

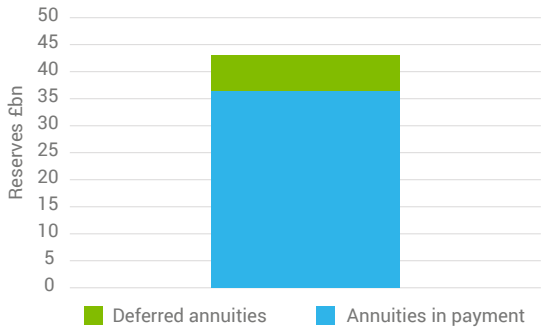
Key: ● Target market ● More selective ● Unlikely to quote

Source: Hymans Robertson research

Hymans Robertson's perspective

Legal and General operate on a "whole of market" basis, meaning that they are willing to quote on all transaction sizes, from the very large to the very small. This is borne out by the transactions that they have carried out: these include a number of very large transactions such as the ICI buy-in, but the overall average transaction size since 2009 is £31m, which shows that they have also completed a large number of smaller transactions as well.

L&G - annuity reserves 31/12/15

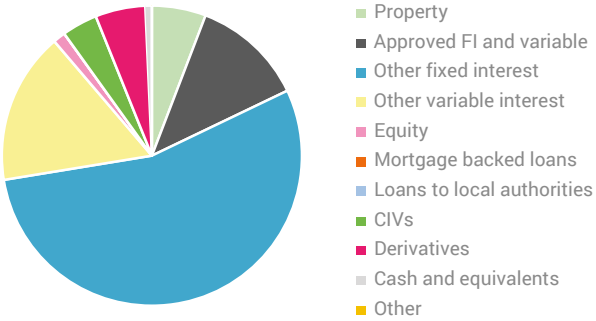


The reserves shown are gross of external reinsurance
Source: PRA insurance returns, as at 31 December 2015
Covers all UK companies in Legal & General Group

Hymans Robertson's perspective

Legal and General also write deferred annuities, usually as part of buy-out transactions. These tend to be less common, due to issues of affordability. This can be seen from the relative level of reserves that Legal and General hold in respect of annuities.

Annuity portfolio



Source: PRA insurance returns and Hymans Robertson research, as at 31 December 2015 (Forms 48 and 56, Non-Profit part of Long-Term Fund, Legal & General Assurance Society)

Hymans Robertson's perspective

A significant proportion of Legal & General's annuity-backing assets are invested in fixed-income securities, which includes government and corporate bonds as well as some "direct investments". As per Legal & General's 2015 report and accounts, direct investments can include physical assets, bilateral loans and private equity. At the end of 2015, £5.5bn of the annuity book was invested in direct investments. The company is also starting to invest in equity release mortgages. These are typically products where the customer is advanced a loan, secured on their home, which becomes repayable only when the individual dies or moves into long-term care. Please note that this asset breakdown reflects the mixture of individual and bulk annuities written to date.

Financial strength – Legal & General Assurance Society

S&P Financial Strength Rating

AA-

(August 2016)

Moodys Insurance Financial Strength Rating

Aa3

(August 2016)

AKG

"A" (superior)

(as at December 2015)
Ratings are by AKG Financial Analytics Ltd and are reproduced with permission.

The Capital Resources Requirement Coverage Ratio (CRRCR)

209%

(December 2015)

Administration:

Legal and General administer their schemes in-house.

Insurer summary insights

Pension Insurance Corporation

August 2016

Since 2009

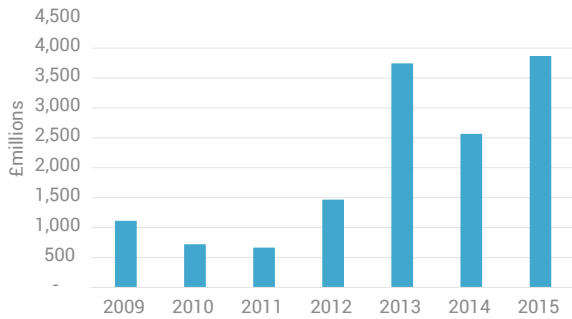
Deals completed	Value of deals	Annual variation in transaction volume
› 110	› £14bn	£416m

Average transaction size
£125m

2015

Market share	Number of deals	Average deal size
31.1%	13	£298m

PIC – volume of pension scheme buy-in and buy-out transactions



Source: Hymans Robertson quarterly risk transfer report

Hymans Robertson's perspective

Since 2009, the annual average variation in new business written has become more volatile, with larger transactions in 2013 and 2015 in particular (EMI and Philips, see table below) significantly increasing the volume compared to 2012. In the period 2009 to 2012 average annual variation was £416m, whilst over the period 2009-2015 it was £1,000m.

Noteworthy recent transactions

Buy-ins

Total	AON	Siemens
2014	2016	2016
£1,600m	£900m	£300m

Buy-outs

Philips	EMI	NCR
2015	2013	2013
£2,400m	£1,500m	£670m

Source: Hymans Robertson quarterly risk transfer report

Appetite by transaction size

Pension Insurance Corporation

< £50m	£50m - £100m	£100m - £500m	> £500m
Target market	Target market	Target market	Target market

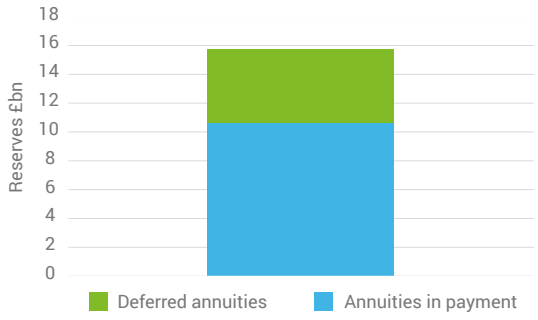
Key: Target market More selective Unlikely to quote

Source: Hymans Robertson research

Hymans Robertson's perspective

PIC do quote on a broadly "whole of market" basis covering all deal sizes albeit they usually tend to focus on larger transactions (i.e. greater than £50m). This is borne out by the transactions that they have carried out where the overall average transaction size since 2009 is £125m.

PIC - annuity reserves 31/12/15

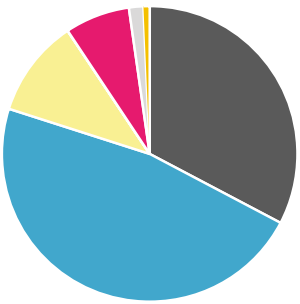


The reserves shown are gross of external reinsurance
Source: PRA insurance returns, as at 31 December 2015

Hymans Robertson's perspective

PIC does write deferred annuities, typically as part of buy-out transactions. They do have a larger proportion of deferred annuities on their books than most other bulk annuity providers, having completed a high value of buy-outs since 2009. This can be seen from the relative level of reserves that PIC hold in respect of annuities, shown in the chart above.

Annuity asset strategy



Source: PRA insurance returns and Hymans Robertson research, as at 31 December 2015 (Forms 48 and 56)

Hymans Robertson's perspective

A significant proportion of PIC's assets are invested in fixed-income securities. The derivatives within the portfolio include interest rate swaps and inflation swaps, as well as currency hedges. As of May 2016, PIC has invested around £500 million in social housing through bilateral deals. The company has also disclosed a number of secured lending transactions, with recent examples including debt secured on the Thames Tideway Tunnel and debt secured on Heathrow landing slots.

Financial strength

AKG

"B+" (very strong)
(as at December 2015)
Ratings are by AKG Financial Analytics Ltd and are reproduced with permission.

The Capital Resources Requirement Coverage Ratio (CRRCR)

231%
(December 2015)

Administration:

PIC outsource the administration of their schemes to Mercer Ltd.

Insurer summary insights

Prudential

August 2016

Since 2009

Deals completed	Value of deals	Annual variation in transaction volume
› 20	› £5bn	£559m

Average transaction size
£243m

2015

Market share	Number of deals	Average deal size
12.1%	6	£251m

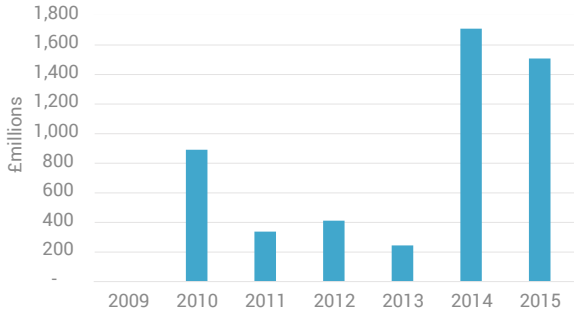
Noteworthy recent transactions

Buy-ins

Northern Bank	ICI	Undisclosed
2015	2015	2015
£670m	£500m	£219m

Source: Hymans Robertson quarterly risk transfer report

Prudential – volume of pension scheme buy-in and buy-out transactions



Source: Hymans Robertson quarterly risk transfer report

Hymans Robertson's perspective

Up until 2016, Prudential's strategy has been to complete a small number of large transactions. This has led to quite significant variation in market share year on year. Although the last two years have seen some stability in deal numbers and size, we do not expect Prudential to be particularly active in the bulk annuity market over the next 12 months.

Prudential has also historically taken on insurer annuity back books, for example from Phoenix Life in 2005 and Equitable Life in 2007.

Appetite by transaction size

Prudential

<£50m	£50m - £100m	£100m - £500m	>£500m
●	●	●	●

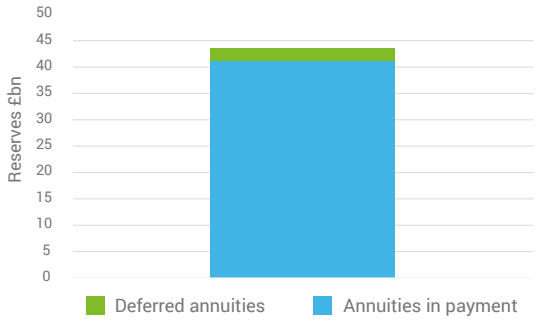
Key: ● Target market ● More selective ● Unlikely to quote

Source: Hymans Robertson research

Hymans Robertson's perspective

Prudential's appetite has been on deals over £100m. However, we do not expect Prudential to be particularly active in the bulk annuity market over the next 12 months.

Prudential - annuity reserves 31 December 2015

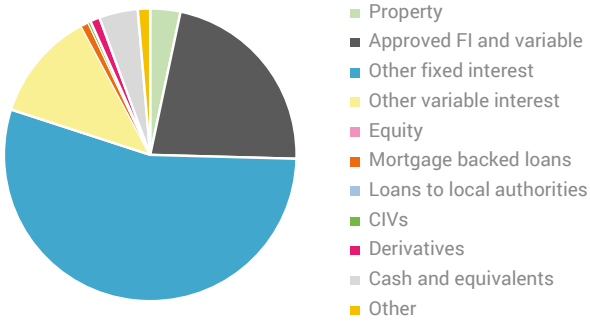


The reserves shown are gross of external reinsurance
Source: PRA insurance returns, as at 31 December 2015
Covers all UK companies in Prudential Group

Hymans Robertson's perspective

Prudential typically do not write annuities for deferred members, but may do so as part of buy-out transactions. These tend to be less common, due to issues of affordability. This can be seen from the relative level of reserves that Prudential hold in respect of annuities, shown in the chart above.

Annuity asset strategy



Source: PRA insurance returns and Hymans Robertson research, as at 31 December 2015 (Forms 48 and 56, Prudential Retirement Income)

Hymans Robertson's perspective

Prudential's annuity-backed assets are mainly invested in fixed income securities (e.g. corporate and government bonds). Please note that this asset breakdown reflects the mixture of individual and bulk annuities written to date.

Financial strength – Prudential Retirement Income

S&P Financial Strength Rating

AA

(August 2016)
Note: parent company rating – Prudential Assurance Company

Moodys Insurance Financial Strength Rating

Aa3

(August 2016)

AKG

"A" (superior)

(as at January 2016)
Ratings are by AKG Financial Analytics Ltd and are reproduced with permission.

The Capital Resources Requirement Coverage Ratio (CRRCR)

303%

(December 2015)

Administration:

Prudential administer their schemes in-house.

Insurer summary insights

Rothesay Life

August 2016

Since 2009

Deals completed	Value of deals	Annual variation in transaction volume
› 25	› £9bn	£430m

Average transaction size
£341m

2015

Market share	Number of deals	Average deal size
19.5%	5	£484m

Noteworthy recent transactions

Buy-ins

Civil Aviation Authority 2015	Philips 2013
£1,600m	£484m

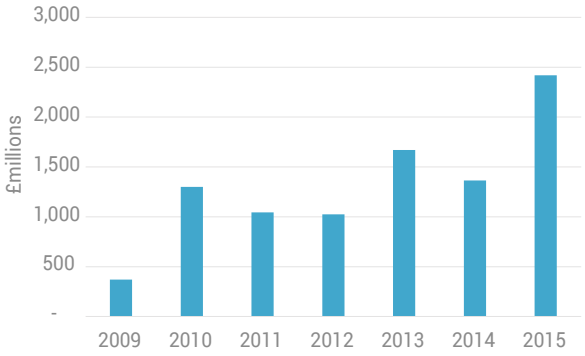
Buy-outs

Lehman Brothers 2015	MNOPF 2012
£675m	£680m

Longevity swap

British Airways 2011
£1,300m

Rothesay Life – volume of pension scheme buy-in and buy-out transactions



Source: Hymans Robertson quarterly risk transfer report

Hymans Robertsons perspective

Since 2009, the annual average variation in new business written has been relatively stable, with the exception of 2014 to 2015. This is due to the effect of the Civil Aviation Authority buy-in and Lehman Brothers buy-out, both in 2015. Excluding 2015, the average annual variation in transaction volume over the period was £430m.

Source: Hymans Robertson quarterly risk transfer report

Appetite by transaction size

Rothesay Life

<£50m	£50m - £100m	£100m - £500m	>£500m
Unlikely to quote	Unlikely to quote	Target market	Target market

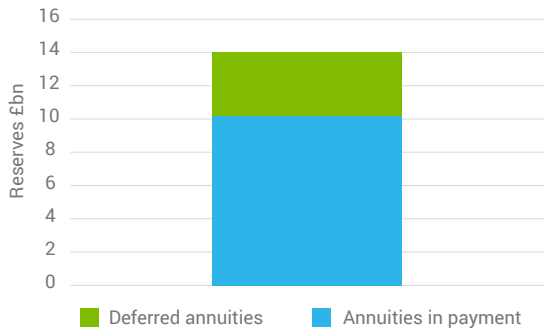
Key: Target market More selective Unlikely to quote

Source: Hymans Robertson research

Hymans Robertson's perspective

Rothesay Life focus on larger transactions (i.e. greater than £100m). This is borne out by the transactions that they have carried out where the overall average transaction size since 2009 is £340m. The number of transactions that they have carried out is also materially lower than other well established providers in the market, which illustrates that they are more selective in choosing larger transactions to participate in.

Rothesay Life - annuity reserves 31/12/15

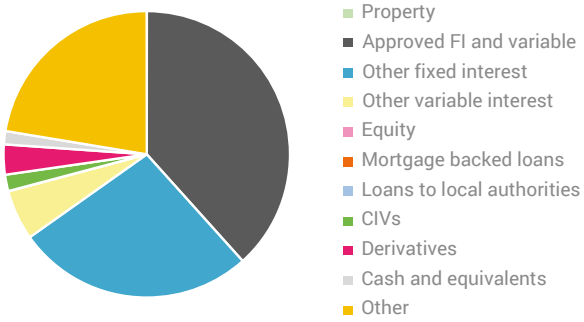


The reserves shown are gross of external reinsurance
Source: PRA insurance returns, as at 31 December 2015

Hymans Robertson's perspective

Rothesay does write annuities covering deferred members, typically as part of buy-out transactions. They see their appetite for deferred annuities as a competitive differentiator and do have a larger proportion of deferred annuities on their books than most other bulk annuity providers. This can be seen from the relative level of reserves that Rothesay Life hold in respect of annuities, shown in the chart above.

Annuity portfolio



Source: PRA insurance returns and Hymans Robertson research, as at 31 December 2015 (Forms 48 and 56)

Hymans Robertson's perspective

Rothesay Life's stated investment objective is to invest in low-risk assets and extract value from illiquidity, by investing in secured forms of lending where it holds property or other collateral against the risk of counterparty default. Rothesay Life also has significant investments in government and supranational bonds. Various derivative contracts are held by the company, which include inflation swaps, interest rate swaps, credit default swaps and currency hedges.

Financial strength

AKG

"B" (strong)
(as at January 2016)
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The Capital Resources Requirement Coverage Ratio (CRRCR)

244%
(December 2015)

Administration:

Rothesay Life outsource the administration of their schemes to Willis Towers Watson and Jardine Lloyd Thomson.

Insurer summary insights

Scottish Widows

August 2016

Since 2015

Value of deals	Number of deals	Average deal size
£1,300m	**4**	**£325m**

Noteworthy recent transactions

Buy-ins

ICI	Wiggins Teape
2016	2015
£630m	**£400m***

* First bulk annuity transaction

Source: Hymans Robertson quarterly risk transfer report

Hymans Robertson's perspective

Track record and recent transactions

On 31 December 2015, Lloyds Banking Group (LBG) transferred the assets and liabilities of seven of its life insurance entities, including Scottish Widows PLC (now renamed SW Funding PLC), into subsidiary Clerical Medical Investment Group Ltd., which has been renamed Scottish Widows Ltd. (SW Ltd.)

Scottish Widows entered the bulk annuity market in 2015 and have already completed four transactions, with two of these of significant size.

Appetite by transaction size

Scottish Widows

< £50m	£50m - £100m	£100m - £500m	> £500m
●	●	●	●

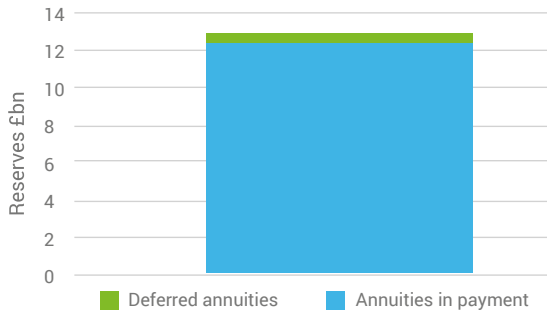
Key: ● Target market ● More selective ● Unlikely to quote

Source: Hymans Robertson research

Hymans Robertson's perspective

Scottish Widows focus on medium to larger transactions (i.e. above £50m).

Scottish Widows - annuity reserves 31/12/15

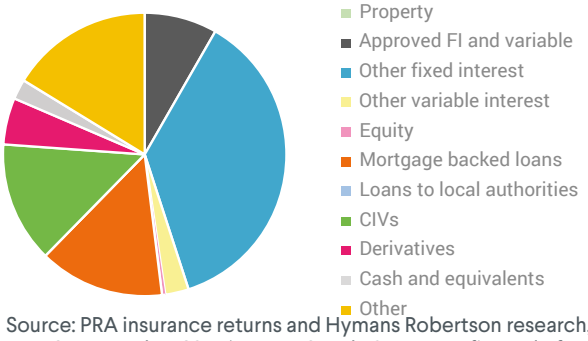


The reserves shown are gross of external reinsurance
Source: PRA insurance returns, as at 31 December 2015

Hymans Robertson's perspective

Scottish Widows do not currently write annuities for deferred members bulk transactions but have plans to introduce this capacity over the next 12 months. They do have some historic liabilities relating to deferred annuities, as can be seen from the chart above.

Annuity asset strategy



Source: PRA insurance returns and Hymans Robertson research, as at 31 December 2015 (Forms 48 and 56, Non-Profit Fund of Scottish Widows Limited)

Hymans Robertson's perspective

Around 40% of Scottish Widows' annuity-backing assets are invested in fixed-income securities (e.g. government and corporate bonds). The regulatory returns also show sizeable allocations to mortgage-backed loans and other types of assets. In the first half of 2015, Scottish Widows announced that they would be partnering with Lloyds Bank Commercial Banking to offer commercial real estate debt. The company has also invested in housing association loans. Please note that this asset breakdown will reflect the approach used for Scottish Widows' individual annuity policies, and the strategy for bulk annuity policies could be different from this.

Financial strength – Scottish Widows Limited

S&P Financial Strength Rating

A

(August 2016)

Moodys Insurance Financial Strength Rating

A2

(August 2016)

AKG

"B+" (very strong)

(as at April 2016)

Ratings are by AKG Financial Analytics Ltd and are reproduced with permission.

Capital Resources Requirement Coverage Ratio (CRRCR)

159%

(December 2015)

Administration:

Scottish Widows administer their schemes in-house.

Is it time to transfer risk?

Please get in touch with me or any of my colleagues featured in this report if you'd like to chat through options for your scheme.

James Mullins
Partner and Head of Risk Transfer Solutions
T: 0121 210 4379
E james.mullins@hymans.co.uk
@jamesrmullins

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CLUB VITA

London | Birmingham | Glasgow | Edinburgh T 020 7082 6000 | www.hymans.co.uk | www.clubvita.co.uk