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ARTICLE | **RISK TRANSFER**

Tailoring the broking approach for success

Lara Desay explains why approaching the risk transfer market may now require a more tailored approach which reflects a scheme's size.

Busyness in the Risk Transfer market is at an all-time high, with around £25bn of bulk annuity transactions expected to be secured in the first half of 2023. This compares to around £27bn in the whole of 2022.

To deal with this level of activity, where it's been decided that securing a buy-in is the right approach for the scheme, the way pension schemes approach the market must adapt to secure a successful transaction. The traditional method of approaching all (or most) insurers in the market and undertaking a two-round pricing process to deliver competitive pricing and terms may no longer be fit for purpose for many schemes. Rather, a more targeted approach particularly driven by scheme size might be optimal.

Small schemes (below £100m)

For schemes of this size, an exclusive one-round approach is frequently going to be the way forward. There have always been challenges in the small scheme market in attracting insurers to process, but approaching on an exclusive basis is now almost becoming a pre-requisite. From an insurer's perspective, the resource required to quote on a £50m scheme is nearly the same as a £500m scheme, so something needs to give to make the £50m transaction attractive and exclusivity can be the key.

The most common concern trustees and sponsors raise when taking this approach is how they can be comfortable getting the best price when there is no competition. In these cases we would advise setting a "price target", the price below which the trustees' and sponsoring employer's objectives, for the buy-in or buy-out, would be met. Setting an appropriate price target relies heavily on having an all-encompassing view of market activity to understand where current market pricing lies and what adjustments are appropriate to reflect the scheme in question's profile.

The other key question is who to go exclusive with. Again having an adviser with a strong understanding of the current market and knowing who is pricing competitively at any given time is important. In addition, having upfront consideration of non-price factors such as financial strength, administration capability and ESG are all fundamental to any exclusivity decision.

Medium schemes (£100m-£1bn)

This segment of the market is likely to garner strong interest from a wide range of insurers. Their appetite will be influenced by many factors, including asset pipeline, capital, reinsurance availability, and other business they are already participating in. In their weekly triage meetings, insurers will evaluate (in addition to the preparedness of data and benefits and transaction certainty) how competitive they expect to be for the profile of business at hand.

As part of the broking processes, insurers are provided high-level feedback on the competitiveness of their pricing, allowing them to build up a good pool of data around which scheme characteristics suit their pricing models best. For example, they could be more or less competitive on CPI-linked benefits, or longer-dated benefits. The triage process, therefore, leads to some 'self-selection' where those insurers unlikely to offer attractive pricing, rule themselves out in favour of cases that suit them better at no disadvantage to the scheme.

A two-round process may still be attractive at this size, but some insurers may prefer this to be cut short to a single round to "cut to the chase" and reduce the burden on their pricing team.

Large schemes (over £1bn)

The market is seeing its largest ever flow of transactions over £1bn in size, with around 20 deals at this size having already been transacted or are being quoted on in the market this year. This means securing insurer participation is no longer the given it once was.

With size often comes complexity. This might be in the form of how to deal with illiquid assets that could be causing a barrier to a transaction, requirements for residual risks cover (coverage from insurer to protect against future benefit and membership changes that are currently unknown), administration capacity or complex benefit requirements.

The key to getting strong participation is for your adviser to be able to demonstrate clarity and certainty over objectives and timescales. This can be achieved in several ways including:

- early engagement with insurers around the timing of approach to market and key features, as this can help insurers plan their upcoming pipeline and resource;
- a joint working group can demonstrate collaborative working and shared goals between sponsors and trustees giving insurers greater certainty that a transaction is viable;
- ensuring complete and good quality data to reduce the burden on the insurer's pricing team and give the insurer confidence when they are looking to price and looking to engage reinsurers; and
- forward planning, identification of key hurdles and how these can be addressed, and transparency allows insurers to make informed decisions on whether they can support the transaction, ensuring efficiency on all sides.

In summary

As with all things pensions related, there is rarely an 'off the shelf' solution. Each scheme will have its own nuances and some adjustments to processes may need to be adopted. A good adviser can help tailor a process to address scheme specifics, 'time the market' and guide trustees and sponsors through the busyness to achieve their objectives.

Want to find out more?

If you would like to discuss your scheme's approach to the risk transfer market, please get in touch.

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