



UK Risk Settlement Market Update

April 2022

- 2021 witnessed a busy year for risk settlement transactions with £43.8bn disclosed
- 72% of bulk annuity deals in 2021 were full scheme transactions, reflecting rising funding levels
- Aon's risk settlement group were lead adviser on 27% of the bulk annuity market

2021 – a year in review

The UK risk settlement market experienced another busy year in 2021 with £43.8bn of bulk annuities and longevity swaps disclosed.

The UK bulk annuity market recorded total volumes of £28.6bn in 2021, the third busiest year on record, behind 2019 and 2020.

Aon's risk settlement team led the market for advisers in 2021 with £7.8bn pension scheme liabilities successfully secured with insurers.

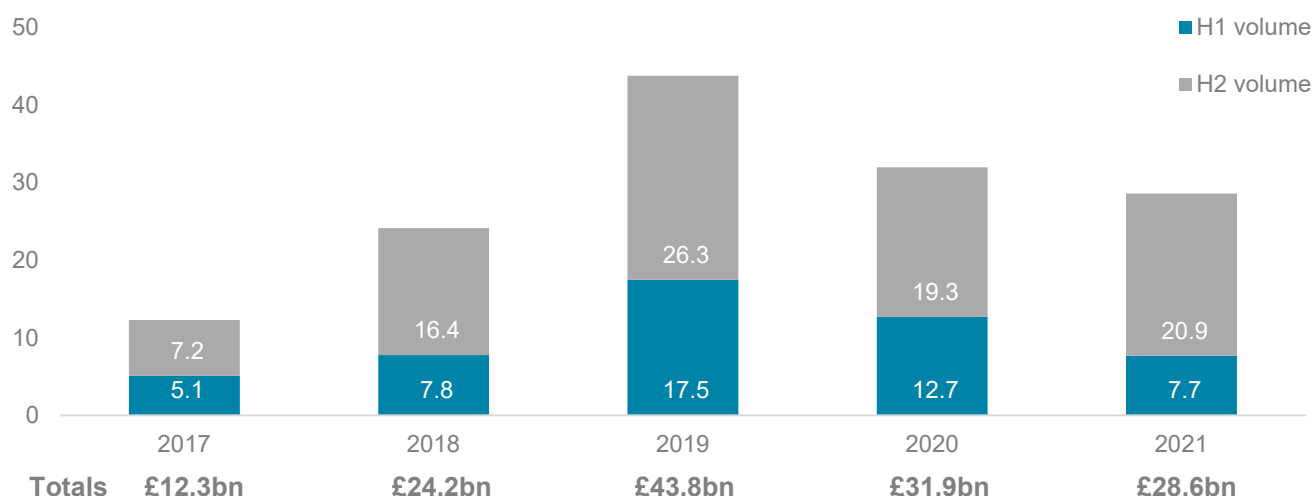
The market overcame a slow start in the first half of 2021 and delivered the second busiest half-year on record with £20.9bn of bulk annuities written over the second half of 2021.

Insurers trying to achieve their annual targets is one of the reasons the market gets busier towards the end of the year and coupled with the fact the first half of 2021 was relatively quiet, insurer capacity was very high.

This resulted in a flurry of deals transacted in the second half of the year with 96 of the 157 deals transacted during this period, including four £1bn or more transactions.

The trend of higher volumes in the second half can be seen in the chart below.

Bulk annuity volumes split by half year (£bn)



Source: Aon's Insurer Due Diligence team



Transaction sizes and numbers

The table below shows the number of bulk annuity transactions written in the market over 2021, split by the size of each individual deal.

Total deal numbers have been relatively stable over 2019 to 2021, but there was a marked fall in business from £1bn+ transactions over the last two years.

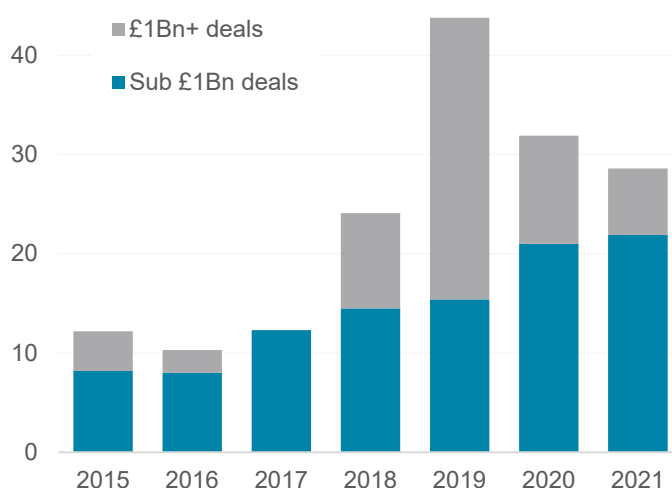
This partly reflected the temporary market feature of the pandemic's impact on making major business decisions, such as initiating large new annuity projects.

Increasing scheme funding levels meant an increased focus on full scheme transactions in 2021. In the past, pensioner-only transactions have dominated, insurers reported that 112 of the year's deals also included the securing of deferred members.

The market has changed to accommodate this. In 2022, for the first time, all eight insurers will be able to offer full-scheme buyouts with member-facing administration services.

Ultimately, it is clear to see that the bulk annuity market remains open to schemes of all sizes and durations. As the graph on the right shows, when the more uneven flow of £1bn+ deals are stripped out, market volumes have been steadily rising.

Bulk annuity volumes split by £1bn+ deals (£bn)



With schemes getting more mature and a majority now targeting buyout (a trend reported in [Aon's 2021/22 Global Pension Risk Survey](#)), market volumes are expected to rise in the next few years. Demand could well push the market to deliver nearer £50bn p.a. of bulk annuities, subject to major events like COVID-19 and the situation in Ukraine.

If the larger £1bn+ deals return to the market in 2022, this could lead to constraints in insurer resourcing for smaller schemes. This would mean it is now more important than ever for small schemes to be well-prepared and streamlined in their market approach, such as via Aon's [Pathway](#).

Number of transactions by size in 2019 to 2021

Transaction size	2021		2020		2019	
	Deals	Volume	Deals	Volume	Deals	Volume
Less than £100m	99	£2.8bn	77	£2.2bn	104	£2.4bn
£100m - £500m	41	£9.6bn	45	£9.9bn	27	£5.9bn
£500m - £1bn	13	£9.6bn	13	£8.8bn	9	£7.1bn
More than £1bn	4	£6.6bn	7	£11.0bn	10	£28.4bn
Total	157	£28.6bn	142	£31.9bn	150	£43.8bn

The figures quoted above include a £925m (2021) and a £400m (2020) Assured Payment Policy written by L&G. These policies are not bulk annuities but are a de-risking product that provides protection against investment and inflation risks, but not initially longevity risks

Source: Aon's Insurer Due Diligence team



Market Shares

Similar to 2020, Legal & General led the way in 2021 writing £6.2bn. Over the past few years, Aviva has experienced steady growth and it followed close behind in 2021, announcing a record year for bulk annuities with almost £6.2bn of business written.

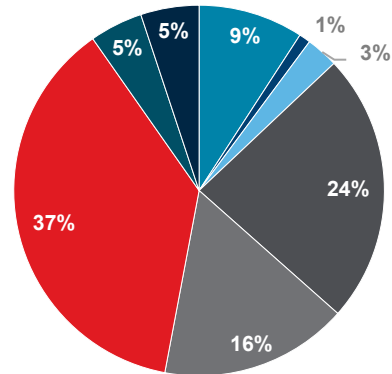
Standard Life expanded its team and had its highest ever year for bulk annuity volumes, with £5.5bn in 2021, more than doubling its 2020 total of £2.6bn.

Rothesay and PIC tend to compete with Legal & General for the leading market share but they both wrote lower volumes over 2021 and we believe that this partly reflects a temporary fall in larger scheme buyout opportunities.

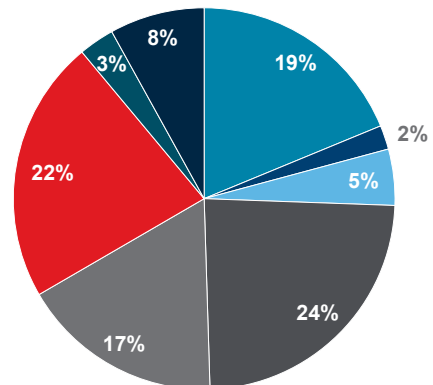
Just Group and Canada Life have steadily increased their volumes as they are now willing and able to take on full scheme deals.

The pie charts on the right show the market share of each provider since 2019.

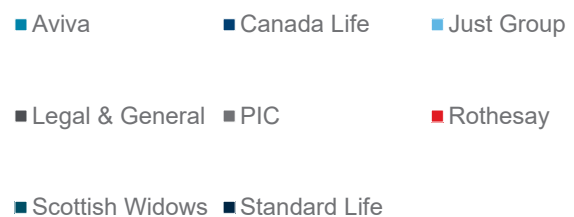
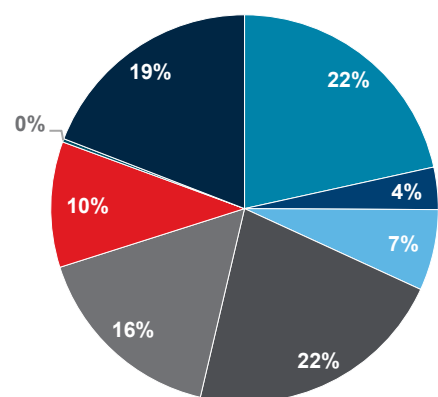
Market Share 2019



Market Share 2020



Market Share 2021





Market Shares – continued

The total volumes and numbers of deals by provider are summarised in the table below.

Insurers	2021		2020		2019	
	Deals	Volume (£m)	Deals	Volume (£m)	Deals	Volume (£m)
Legal & General	45	6,240	44	7,593	28	10,325
Aviva	45	6,165	40	5,955	54	4,013
Standard Life	7	5,470	7	2,550	5	2,230
PIC	14	4,700	7	5,649	17	7,194
Rothesay	11	3,000	12	7,077	10	16,343
Just Group	29	1,935	23	1,508	23	1,231
Canada Life	5	1,008	5	646	8	438
Scottish Widows	1	80	4	957	5	2,030
Total	157	28,598	142	31,935	150	43,804



Longevity swaps

The ultimate impact of the COVID-19 pandemic remains uncertain and with the reinsurance market becoming increasingly competitive, pension schemes are finding longevity swaps to be an attractive method to hedge longevity risk.

2021 was a busy year in the longevity swap market, with £15.2bn of publicly announced deals, second only to 2020 for total business written (£24bn). The four published longevity swaps in the market transferred risk to four different reinsurers:

- £6.0bn with Prudential (Scheme undisclosed)
- £3.7bn with Swiss Re (ICL Group Pension Plan)
- £3.0bn with Hannover Re (AXA UK Pension scheme)
- £2.5bn with MetLife (Scheme undisclosed)

Lloyds Banking Group has already announced the first longevity swap of 2022 for its own schemes – a £5.5bn transaction with SCOR.

The graph below shows the volume of longevity swap and bulk annuity transactions since 2015.

Outlook for 2022

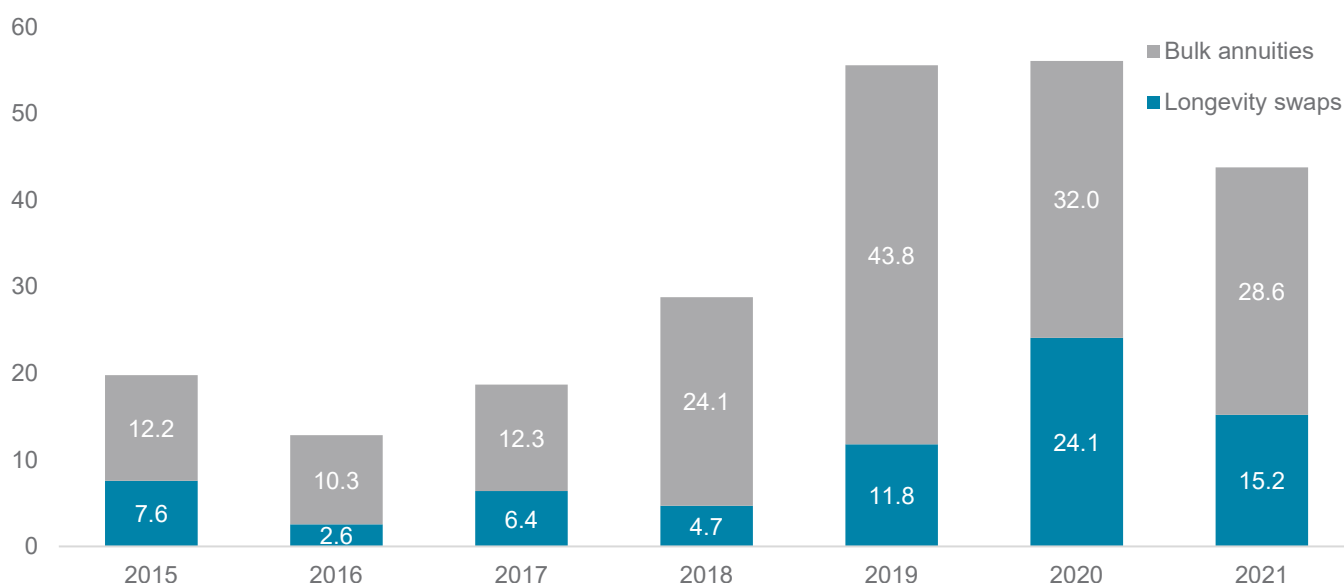
2022 is expected to be another strong year, if not a record one, across the bulk annuity and longevity swap markets. It may well also provide the first completed transactions for a commercial consolidator.

The volatility in the financial markets as a result of the Ukraine-Russia crisis, coupled with high global inflation, may well result in numerous challenges for both insurers and pension schemes.

There are also potential regulatory developments (following Brexit) to the insurance solvency regime in the UK that underpins insurer regulation (discussed in our paper [“Reforming UK Solvency II”](#)).

Schemes that are well hedged and have a modest allocation to credit markets are likely to have a more stable solvency position and be able to act swiftly to take advantage of attractive pricing. Schemes may experience favourable pricing at different points during the year and schemes will have to be agile and ready to transact during these volatile times, in order to capitalise on opportunities.

Volumes of risk settlement transactions (£bn)



Source: Aon's Insurer Due Diligence team



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