

For Professional Clients Only

UK Risk Settlement Market Update

April 2023

- Another busy year for risk settlement transactions with £43.5Bn disclosed
- 84% of bulk annuity deals in 2022 were full scheme transactions, reflecting rising funding levels
- 2023 will see a number of multi-billion-pound transactions that could result in a record breaking year

2022: rising demand expected to continue

In 2022, there were over 200 bulk annuity transactions written amounting to £27.8Bn of liabilities. Despite a fall in liabilities insured compared to previous years, this represented the most transactions in a single year over the past decade.

This trend was largely driven by rising market yields reducing the value of liabilities for each single transaction. If yields had remained at a similar level to 2021, the market would probably have surpassed £35Bn, which would have been the second highest year ever.

We expect 2023 will see a return of the multi-billion pound transactions that fuelled record volumes in 2019. RSA Group has already completed the largest bulk annuity on record insuring £6.5Bn of liabilities with PIC. It is possible that 2023 could see bulk annuity transactions surpass the £50Bn mark.

While the biggest deals grab the headlines, 2022 saw a significant growth in the number of sub-£100M transactions completed, showing opportunities remain available for schemes of all sizes.

Bulk annuity volumes split by half year (£Bn)



Source: Aon's Insurer Due Diligence team

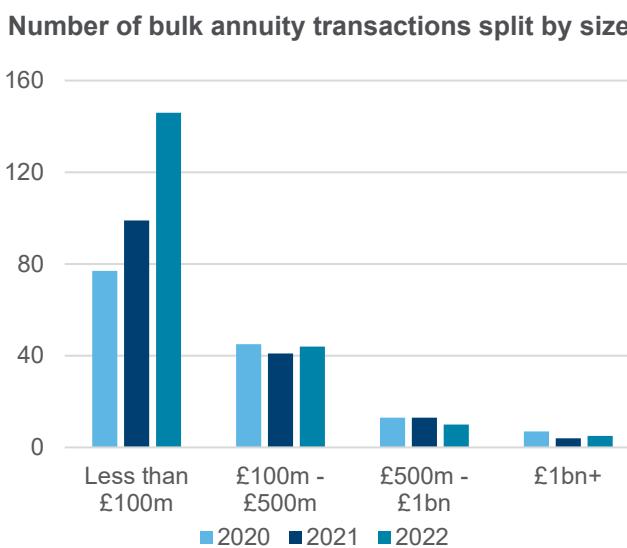


Smaller deals have a big impact

The total number of bulk annuity transactions written hit 205 in 2022 (including three Assured Premium Payment transactions written by L&G) – the first time in the past decade that more than 200 transactions have been completed.

This compared to 157 reported in 2021 and 142 in 2020. This marked increase in the number of transactions reflected a number of factors, including:

- Rising yields which reduced the size of each individual transaction compared to the start of 2022. Insurers therefore had to write more deals to reach their new business targets for 2022.
- Improving funding levels for many pension schemes over 2022 resulting in increased demand for bulk annuities.

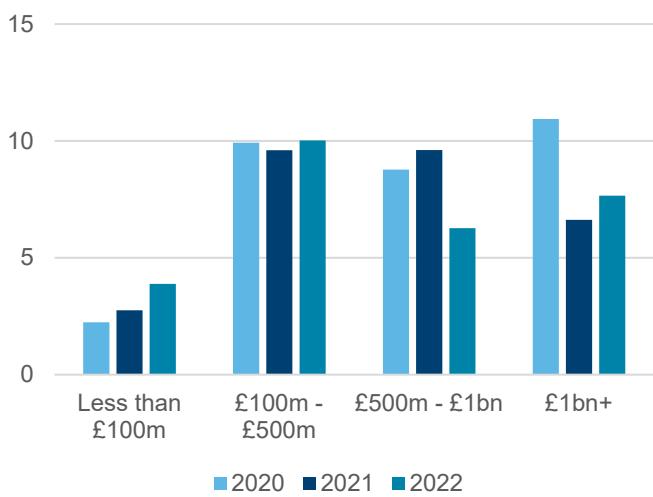


The table above shows the number of bulk annuity transactions written in the market each year over 2020-2022, split by the size of each individual deal.

The increase in sub-£100M bulk annuities in 2022 partly reflects the impact of yield rises on shrinking deal sizes.

There were 146 sub-£100M transactions across 2022, representing 71% of all completed deals. Aviva and Just Group wrote 40 and 48 of these respectively, continuing to dominate at these transaction sizes.

Volume of bulk annuities split by size



The table above shows the volume of bulk annuity transactions written in the market each year over 2020-2022, split by the size of each individual deal.

In 2022, there were five transactions greater than £1Bn, totalling £7.7Bn of liabilities. This compared to four transactions of £1Bn+ in 2021 totalling £6.7Bn. In the coming years, we expect a significant rise in the volume of multi-billion pound buyouts that could push annual volumes towards £50Bn and beyond.

Whether this limits the recent growth in sub-£100M transactions, or if some insurers continue to manage to write a steady stream of smaller transactions through the year as well, will depend on the nature and timing of the specific auction opportunities arising.



Annuity market share

Legal & General (L&G) retained its place as the leading insurer for the third consecutive year in 2022, writing 26% of the bulk annuity market. This included £4Bn across two buy-in transactions for the British Steel Pension Scheme.

Rothesay and PIC tend to compete for the leading market share alongside L&G but instead wrote lower volumes over 2022, partly from anticipating substantial potential business for 2023 (noting PIC's recent £6.5Bn transaction for RSA Group).

That left Standard Life, in another successful year growing into the market, in second place writing £4.7Bn of new business across 2022.

With Aviva, these insurers have provided the bulk of the market capacity in recent years.

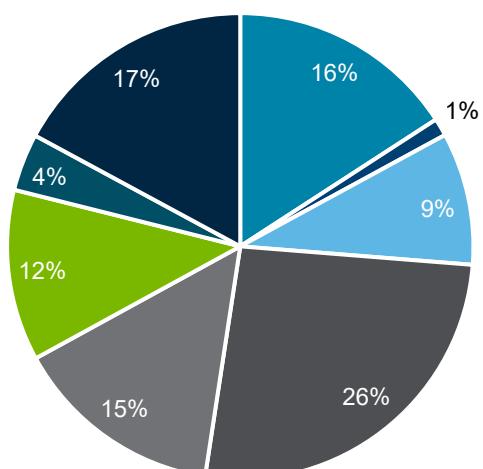
Just Group wrote their record volume of bulk annuities in 2022 (£2.6Bn) and have subsequently announced their largest single transaction, a £513M full scheme buy-in in February 2023 for GKN – their first transaction in excess of £500M.

Just have been widening their target market upwards over recent years and are now actively quoting on larger deals (£500M+), therefore increasing competition in this segment of the market.

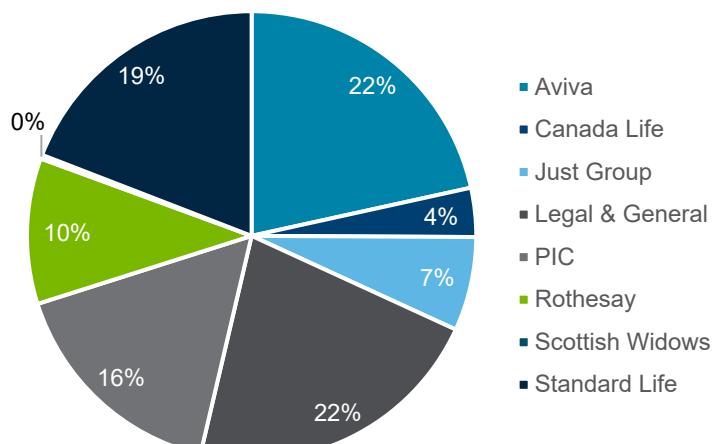
Canada Life and Scottish Widows have been refining offerings for full scheme transactions to assist with capturing more market opportunities. 2023 will therefore be the first year that all eight active bulk annuity insurers are offering full-scheme transactions.

Full-scheme transactions have become more commonplace in recent years, with 84% of all transactions including at least some deferred members, a rise from 72% in 2021. This growing trend follows improvements in annuity pricing for deferred members and improving funding levels for many schemes over 2022.

Market share 2022



Market share 2021





Addressing longevity uncertainty

The long-term impact of COVID-19 on mortality for UK pension scheme members remains uncertain and longevity swaps offer a potentially attractive risk management tool.

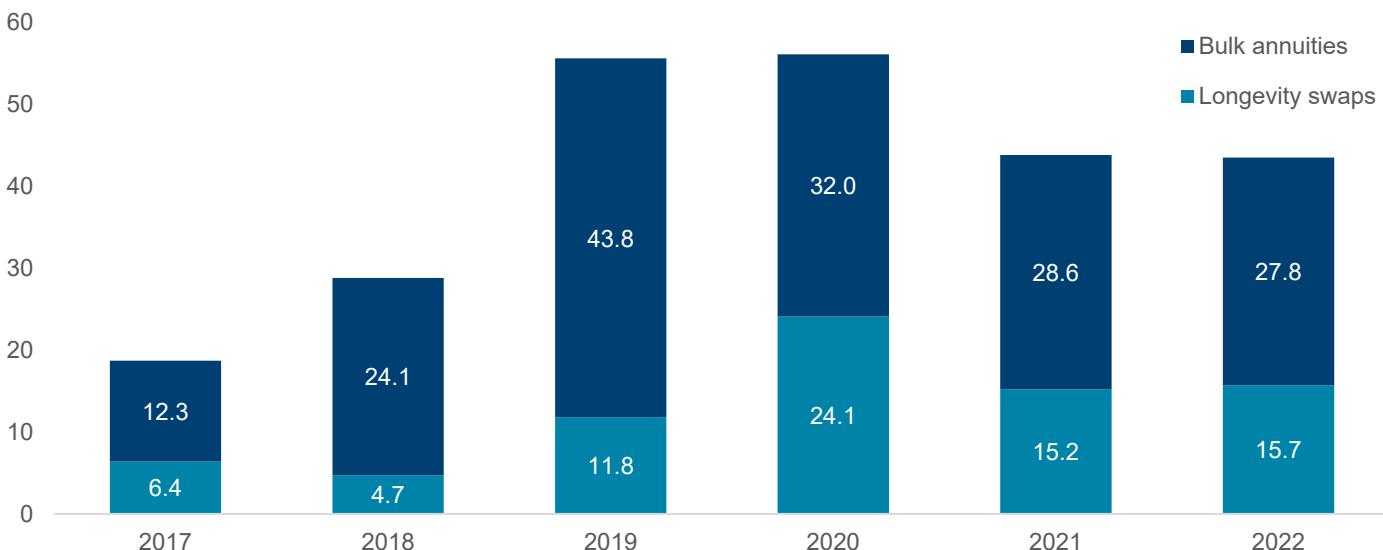
2022 saw £15.7Bn of publicly announced deals (2021: £15.2Bn, 2020: £24.1Bn).

Sponsor	Size (£Bn)	Reinsurer
Barclays Bank UK	7.0	Prudential
Lloyds Banking Group	5.5	Scottish Widows/SCOR
Balfour Beatty	1.7	Zurich / SCOR
Confidential	1.0	Zurich / Partner Re
UBS (UK)	0.5	Zurich / Canada Life Re

With the increased market competition from reinsurers over 2022 expected to continue, along with greater appetite from reinsurers to write deferred risks, the longevity swap market could be compelling for some schemes.

The graph below shows the volume of disclosed longevity swaps and bulk annuities since 2017.

Volumes of risk settlement transactions (£Bn)



Source: Aon's Insurer Due Diligence team

Predictions for 2023 outlook

2023 could be a record-breaking year for the risk settlement market with a strong outlook for both bulk annuities and longevity swaps. The ultimate level of activity achieved will depend on the number of multi-billion pound transactions that are completed in 2023, but this could approach £50Bn for bulk annuities alone.

The high level of expected activity reflects improved funding levels for many pension schemes and a continuing demand from trustees and sponsors to de-risk.

This year could also see significant regulatory change as the PRA consult through the summer on the Government's proposed changes to the Solvency II regime in the UK. More details of the changes are set out in our paper '[Regulation of UK insurers](#)'.

If you would like to find out more about how Aon could help your scheme, then please contact us.

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