

Bulk annuity market Q4 trustee update

Market commentary

- H1 2023 was very busy in the bulk annuity market with £21bn of business written, making it the busiest ever first half of the year on record.

Notable deals in the public domain include:

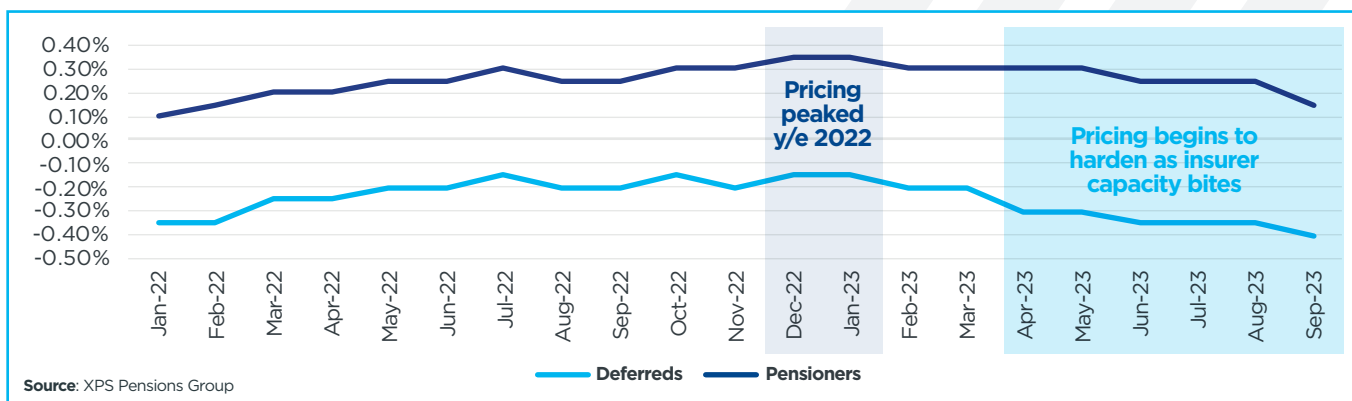
British Steel	£2.7bn	The final policy in a series of buy-ins totalling £7.5bn, all written by L&G
Mitchells and Butlers	£1.2bn	XPS-led transaction, written by Standard Life
United Utilities	£1.8bn	2 scheme transaction covering 2/3rds of the schemes' liabilities, written by L&G

- Insurer capacity constraints have continued to bite, with some deals attracting fewer bidding insurers than we'd have typically seen in previous years as demand builds in the market, although pricing remains competitive for well-prepared schemes.
- The market for sub £100m transactions has continued to tighten and most insurers require exclusivity below £25m. Streamlined approaches such as **XPS Xpedite** are becoming key to improving insurer engagement.
- M&G (through its wholly owned subsidiary Prudential) re-entered the market, announcing two transactions in September of £331m for an in-house scheme and a second at £286m for an external scheme.
- Canada Life completed its first ever deferred member buy-in, in a transaction of £58m covering around 300 deferreds and a further 270 pensioners.

Pricing levels

XPS closely tracks pricing through pricing feeds from insurers and real-life transaction pricing across deals of all sizes.

Average pricing over the past 18 months (relative to gilt yields) is illustrated below:



Note: The pricing is based on observed market pricing and model points from bulk annuity insurers and is representative of a generic £100m liability. Actual bulk annuity pricing is specific to a particular scheme's demographic and benefit profile, and other wider factors influencing insurer appetite for a transaction.

Mansion House reforms

On 10 July 2023, the chancellor, in his Mansion House speech, set out a series of initiatives to enable the financial sector to unlock capital for industries and increase returns for savers, while supporting UK economic growth.

Measures that will impact the Risk Settlement space include:

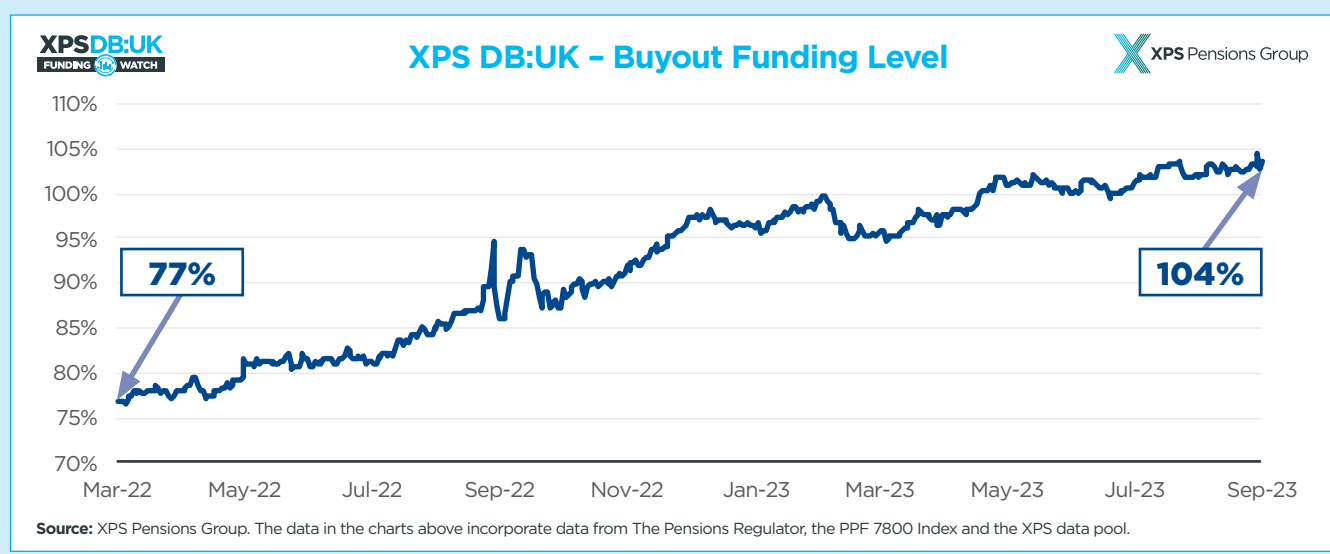
- **Calls for evidence on trustee skills, capabilities and culture** – aimed at understanding decision-making on more complex investments;
- **Options for DB schemes** – covering surplus and consolidation; and
- **Over summer the Government reiterated its support for Superfunds** and The Pensions Regulator (TPR) subsequently updated its guidance, including reducing the 'entry requirement' threshold by setting the discount rate at Gilts + 0.75%.



[View here](#)

Funding and investment news

Bond yields are expected to remain volatile during 2023 but continue to help improve funding positions across many DB schemes in the UK, fuelling further demand. See **XPS DB:UK Funding Tracker** below.



Outlook for H2 2023

XPS market intelligence and deals currently in the market suggests that the record for deal volumes (c£45bn in 2019) is likely to be broken in 2023.

Insurers are pushing for earlier exclusivity, with thresholds for exclusivity on smaller transactions increasing as demand continues to build. Competitive pricing is still attainable in the market, but preparation and understanding of market dynamics is more important than it has ever been. Increasingly, a focus on key transaction requirements and flexibility on timescales is likely to help when approaching the insurers for quotations. Already we are seeing some deals scheduled for Q4 now being pushed into 2024 to ensure sufficient engagement with the insurers.

For further information, please get in touch with **Stephen Purves** or **Adrian Marshall** or speak to your usual XPS Pensions contact.



t 07570 317 980

e stephen.purves@xpsgroup.com



t 0118 918 5423

e adrian.marshall@xpsgroup.com

twitter @xpsgroup

linkedin [xpspensionsgroup](https://www.linkedin.com/company/xpspensionsgroup)



© XPS Pensions Group 2023. XPS Pensions Consulting Limited, Registered No. 2459442. XPS Investment Limited, Registered No. 6242672. XPS Pensions Limited, Registered No. 03842603. XPS Administration Limited, Registered No. 9428346. XPS Pensions (RL) Limited, Registered No. 5817049. XPS Pensions (Trigon) Limited, Registered No. 12085392. Penfida Limited, Registered No. 08020393. All registered at: Phoenix House, 1 Station Hill, Reading RG1 1NB.

XPS Investment Limited is authorised and regulated by the Financial Conduct Authority for investment and general insurance business (FCA Register No. 528774).

This communication is based on our understanding of the position as at the date shown. It should not be relied upon for detailed advice or taken as an authoritative statement of the law.