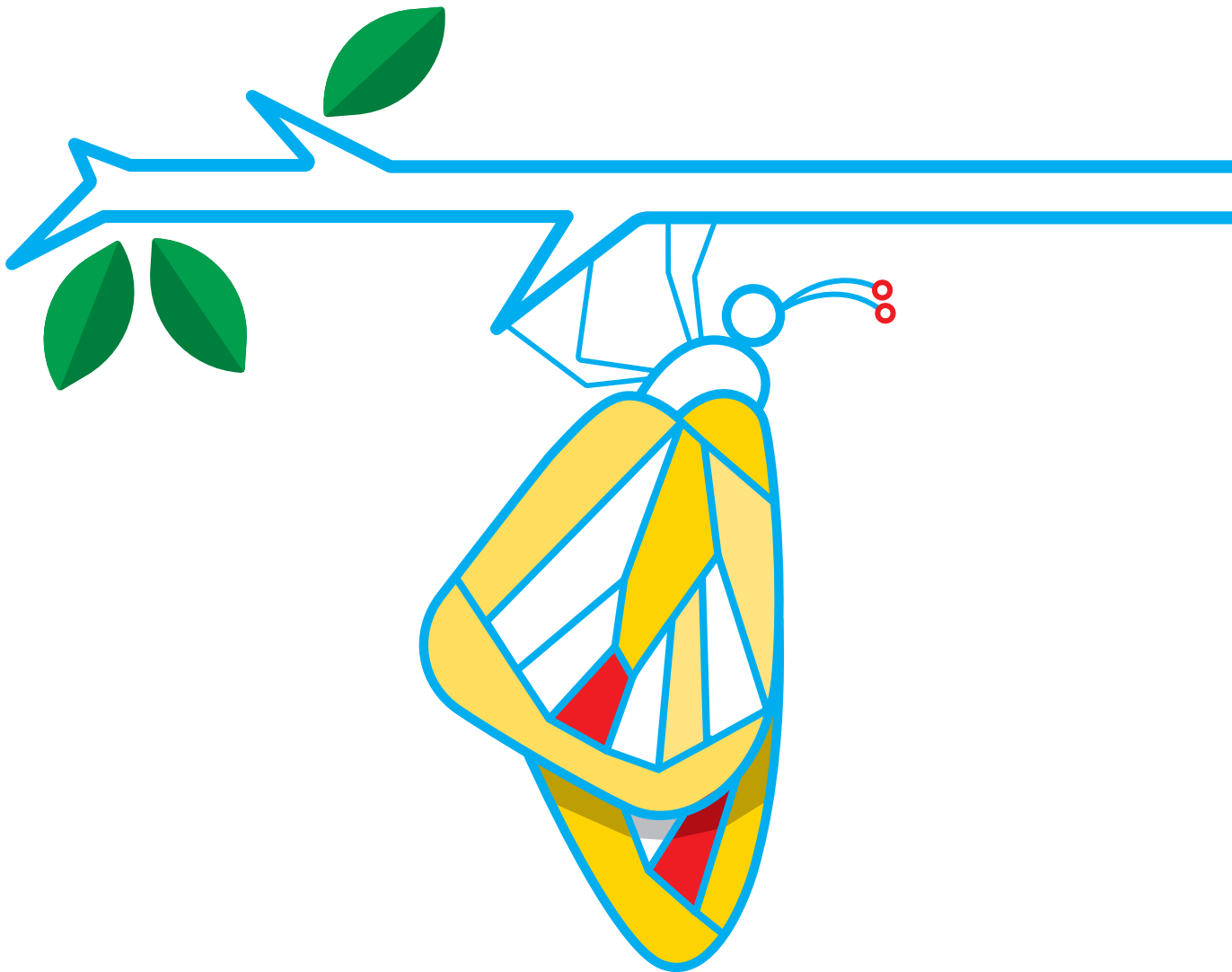


Overview of the pension risk transfer market



Market overview

2016: DEMONSTRATING OUR INDUSTRY'S ABILITY TO DELIVER

2016 was a year for the insurance industry to prove itself; from the uncertainty accompanying the introduction of Solvency II to the market volatility following the EU referendum, insurers have worked hard to deliver solutions at attractive pricing and to ensure value for trustees and sponsors. Despite these challenges the market has continued to thrive: we estimate the volume of bulk annuity business across the market over the year to be more than £17.5 billion (including annuity back-books), which is up on 2015 when £12.3 billion of business was written.

- **Legal & General had a successful year and generated strong new business volumes** – £6.3 billion of UK bulk annuity business including the £2.9 billion Aegon back-book transaction in May and the £1.1 billion Vickers Group Pension Scheme buyout in November. This is £4.3 billion higher than our full year bulk annuity sales figure of £2.0 billion for 2015.
- Following completion of our first US transaction in 2015, a \$450 million buyout with the US subsidiary of Royal Philips, we have continued to be successful in this market writing over \$400 million of new business in 2016, and expanding our proposition to include deferred members.
- The longevity insurance market was quieter in 2016 – £2.5 billion of pensioner liabilities were covered which includes a £900 million arrangement that we wrote with a UK pension scheme in which we reinsured longevity risk at the same time.

- The market continued to be competitive as demand for de-risking solutions remained healthy. Whilst headlines have focused on Prudential stepping back from the market and the merger of two current participants – Just Retirement and Partnership Assurance, there have also been two new entrants in recent years – Scottish Widows and Canada Life. In addition, both Pension Insurance Corporation and Rothersey Life continue to have access to new capital and have remained active in the market.

2017: LOOKING FORWARD

2017 has the potential to be another strong year: with continued demand from pension schemes for de-risking solutions combined with healthy insurer and reinsurer capacity. These factors, aligned with the expected return to stable levels of pricing would create favourable conditions for schemes looking to de-risk. Despite a relatively quiet start to the year, here are some trends that we think will emerge over 2017.

- **Gradual de-risking towards the end goal.** The ICI Pension Fund completed a further five buy-ins over 2016, covering liabilities totalling nearly £2.5 billion. We see this targeted de-risking approach as a blueprint for the future; enabling schemes to take risk off the table gradually, tackle liabilities in manageable sizes and capture favourable pricing opportunities when they arise. The key to success here is that transactions can be executed quickly and seamlessly by the trustees and their advisers working closely

with insurance partners to bring the scheme to a transaction-ready position. Pricing targets are clearly defined and the process is managed decisively through robust yet agile governance procedures.

- **Creating a partnership to secure the best pricing.** Pricing bulk annuities has become increasingly more complex – the introduction of Solvency II has led to the increased use of reinsurance and the search for illiquid assets to support attractive pricing. Consequently, we believe there is merit in trustees working with a smaller number of insurers, or perhaps exclusively with one, in order to achieve the greatest value through bespoke asset sourcing, refined reinsurer pricing and pre-agreed contractual terms so that they are ready to transact when their de-risking target is met.
- **Regular re-pricing on the horizon.** As demand from pension schemes continues to grow and financial markets remain volatile, those schemes that are ready to transact stand the best chance of succeeding. The ability to monitor the market and receive regular pricing updates is key to ensuring that these opportunities are not missed. We are investing in our pricing capabilities such that regular re-pricing will be a reality – this will benefit schemes of all sizes through unprecedented transparency on the impact of market movements on affordability, enabling them to react dynamically to changing events.

- **Streamlined solutions for small and mid-sized schemes.** We expect to see increased efficiency at the smaller end of the market with simplified processes, standardised documents and pre-agreed terms. By simplifying the arrangements, the implementation process can often be shortened and the associated running costs reduced. These factors combined with improved insurer pricing capabilities mean that there are significant opportunities for smaller schemes to access insurance solutions more cost effectively.

Chris DeMarco, Managing Director, UK Pension Risk Transfer comments:

“The market has come through the challenges of 2016 demonstrating great resilience in the face of regulatory, economic and political uncertainty. Our key message for 2017 is that we believe there is scope for the market to grow, fuelled by strong demand, increased insurer capacity and new innovation. Our vision for the future is a world and economy where companies are free of their legacy pension obligations and focused on growing their businesses, while we look after their members in retirement.”



Vickers Group Pension Scheme: the largest buyout in 2016

In late 2016, we completed a £1.1 billion buyout with the Vickers Group Pension Scheme, part of the Rolls-Royce Group, covering over 11,000 members.

This buyout is an excellent example of a long-term de-risking strategy paying off. The transaction demonstrated how we work with pension schemes at all stages of their journey, guiding them to more successful outcomes than may have initially been thought possible. It underlines that the objective of buyout is fully achievable even when markets appear volatile.

A LONG STANDING RELATIONSHIP

The Rolls-Royce Group pension schemes are long standing clients of Legal & General Investment Management (LGIM) which today manages around £12 billion of assets for the company's main Rolls-Royce UK Pension Fund.

Legal & General have supported the trustees over many years, starting in 2007 with a Liability Driven Investment mandate to de-risk the scheme which ultimately culminated in a full buyout with us in 2016. The relationship with LGIM as investment manager enabled us to provide certainty and greater efficiencies during the transition period to buyout.

TRANSITION OF ASSETS

Through an innovative price-lock mechanism, we ensured an efficient transition of assets which enabled us to meet the trustees' and company's pricing and administrative objectives.

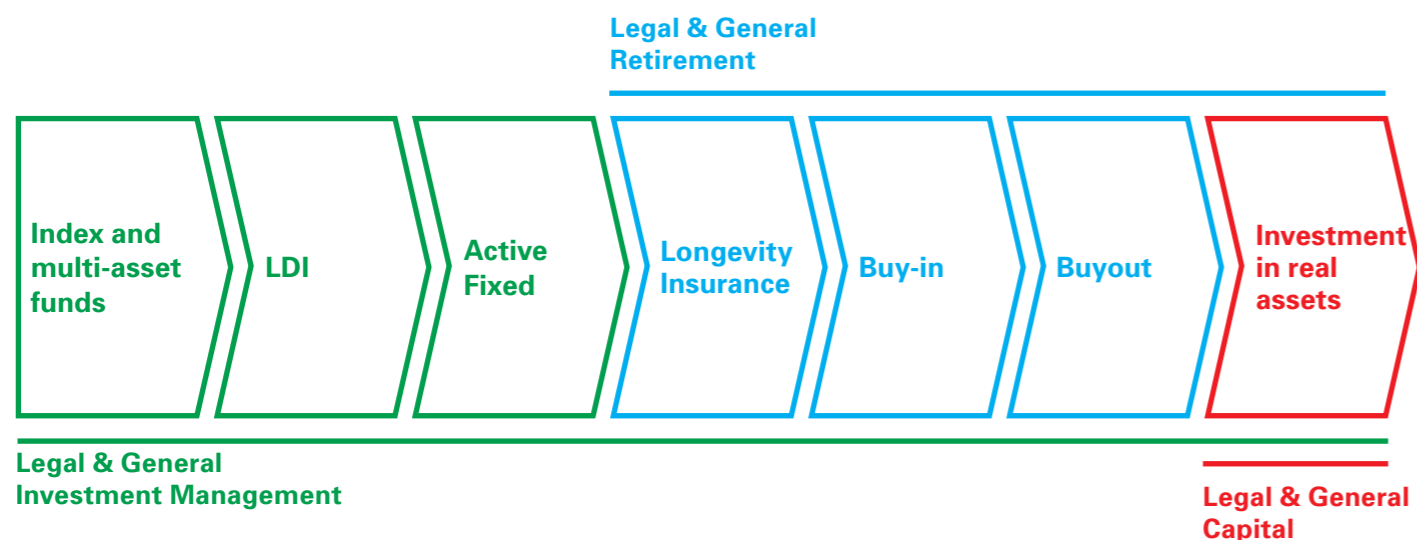
The transition to buyout occurred during a busy time as the company was overseeing a merger of its other UK defined benefit schemes. The efficiency and certainty that our transition strategy offered was helpful to the trustees and the company.

ENHANCING MEMBER BENEFITS

When the trustees first began to consider their de-risking options, they were not certain that a full buyout would be achievable, but by working together we were able not only to achieve a full scheme buyout but also the trustees were able to offer a level of benefit enhancement to members.

A POSITIVE FUTURE FOR ALL

When a pension scheme completes a buyout with us, we take the premium and invest it in order to back the pension promises that we are now responsible for keeping. Infrastructure investment and urban regeneration form a key part of our investment strategy. Legal & General invested over £2 billion in direct investments, including infrastructure, housing and lifetime mortgages in 2016. Our direct investment portfolio now stands at £10 billion. In this way, the savings of the older generations are being used to build the infrastructure and finance the economic growth of the younger generations and this virtuous cycle gets repeated each time a pension scheme transfers risk to us.



WHAT DOES THIS BUYOUT DEMONSTRATE?

- This buyout is a great example of a long term de-risking strategy paying off.
- These kinds of successes are the product of a carefully-executed plan, often implemented over many years.
- Legal & General works with pension schemes at all stages of their journey to guide them to successful outcomes.
- The objective of buyout is achievable even when markets are volatile.

New business volumes

LEGAL & GENERAL UK BULK ANNUITY BUSINESS WRITTEN 2016

During 2016, we wrote 17 UK bulk annuity policies and received £6.3 billion of premium in respect of new business, including balancing premiums. This compares to 42 UK bulk annuity policies and £2 billion of premium received during 2015.

BULK ANNUITY SALES 2016	£0M-£100M	£100M-£1,000M	£1,000M+
Total size (£m)	163.0	2,106.1	4,013.9
Average size of quote (£m)	16.3	421.2	2,007.0
Total number of policies*	10	5	2

*We have changed our approach to recording the number of policies such that full scheme buyouts have been counted as one policy (previously deferred and pensioner quotes for the same scheme were counted as separate policies).

Introducing



Chris DeMarco, Managing Director of UK Pension Risk Transfer

Chris joined in 2017 as Managing Director of UK Pension Risk Transfer. He transferred from LGIM where he was Head of Institutional Client Management and Strategy and was responsible for their client relationship teams. Prior to joining LGIM, Chris spent almost four years as an investment consultant and partner at Aon Hewitt as part of the client and risk settlement (longevity) teams, providing derivatives advice to the practice's largest clients. Prior to Aon, Chris spent 23 years structuring and selling financial derivatives at Credit Suisse, HSBC and Salomon Inc. covering clients and running sales teams in Europe and North America.



Costas Yiasoumi, Head of Core Business Pension Risk Transfer

Costas joins from Partnership Assurance where he led bulk annuities, with previous senior roles at Swiss Re, JP Morgan and Mercer. With over 25 years of pension de-risking experience he brings a wealth of market knowledge and expertise, and his appointment further demonstrates Legal & General's commitment to the growing pension risk transfer market.



Frankie Borrell, Business Development Director

Frankie has joined the Core business team; leading on buy-in and buyout transactions for schemes with assets of less than £1 billion. Prior to joining Legal & General Frankie worked for two other bulk annuity providers and KPMG's corporate pension advisory team.



Contact us

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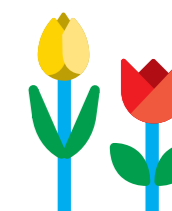
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SEE OUR WEBSITE FOR MORE INFORMATION

 www.legalandgeneral.com/pensionrisktransfer

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