

Buy-inSure

The solution to £5m–£60m pensioner buy-in transactions

Key Points

- A robust and clearly defined process
- Enhanced insurer engagement
- Condensed transaction timelines
- Enhanced contractual terms
- Optional, pre-packaged, cost effective legal review and opinion
- Optional data cleanse service
- Option to compare against an “Underwritten Bulk Annuity” quotation (coming in 2013)
- Optional on-going monitoring against triggers

A major innovation for smaller buy-in transactions

While it is large transactions in the buy-in market that often dominate the headlines, it is transactions below £60 million that account for over 90% of the deals completed in any single year.

The issue for these 'smaller' transactions has always been achieving a competitive price with the flexibility afforded to those 10% of schemes who often grab the attention of the insurance companies.

Launched in Quarter 4 of 2012, Buy-inSure is a robust buy-in process, designed both for pension scheme trustees and corporates, who are considering a buy-in solution for between £5 million and £60 million of pensioner liabilities.

At the heart of Buy-inSure is a clearly defined process which enables schemes to:

- Map out their objectives
- Agree on 'trigger points' for a transaction
- Identify and solve any asset issues
- Benefit from a competitive broking exercise
- Transact effectively within efficient timescales

By partnering with a carefully selected and limited number of insurers who are each actively looking to grow their exposure to this part of the buy-in market, Buy-inSure will generate 'competitive tension' for transactions within this target value range.

Martyn Phillips, Head of Buyout at JLT Benefit Solutions Limited (JLT), said: "It shouldn't be underestimated just how important the balance of the panel of insurer is. Too many insurance companies and the engagement from each is reduced, too few and the competitive tension is not maintained. This is something we'll continue to monitor to help maximise the value we can achieve for our clients."

Schemes transacting with Buy-inSure will also benefit from reduced transaction timelines. This makes it possible for schemes to react fast and efficiently when opportunities arise, making it possible for a transaction to be completed in as little as two months.

Understanding that transactions are often delayed due to lengthy negotiations over contractual terms, JLT has partnered with pensions law firm, Pinsent Masons to negotiate enhanced contractual terms with each of the insurers on the Buy-inSure panel. Phillips explains: "These terms are essentially there ready to be rolled out as soon as the scheme agrees they want to move forward.

"This can make a huge difference to the success of the transaction as the industry has often seen the markets move against the scheme whilst negotiations are taking place."

Mark Wood of JLT added: "We've seen a lot of 'regret risk' in recent years where, pre the crisis, firms got within a whisker of doing a transaction only to see the deficit yawn making the transaction unobtainable".

Buy-inSure comes with a number of optional extras, allowing schemes to tailor the solution to meet their specific needs.

For example, Pinsent Masons offer a pre-packaged, cost effective legal review and opinion of each insurers pre-negotiated contract under Buy-inSure. This service includes presenting an understanding of the key differentiators between the various insurers' contracts and can form an essential part of the selection process. This option can further streamline the transaction process and provide cost certainty as it is offered on a fixed fee basis.

It has been well documented that data quality can be the difference between an affordable and an unaffordable buy-in transaction, but equally well documented is the need for schemes to be in a position to transact quickly when market conditions meet their requirements. With this in mind, schemes entering the Buy-inSure process can elect to utilize one of two data cleansing options.

1. An 'up front' exercise which ensures the data supplied to the insurer panel is correct at the initial point of engagement.
2. An exercise which runs parallel to the Buy-inSure process - ensuring there is no unnecessary delays - with the results incorporated in an updated quotation before the transaction proceeds.

A third optional extra available within Buy-inSure is the ongoing monitoring of buy-in prices against pre-agreed 'trigger points' set by the Scheme. This is available at two stages in the Buy-inSure process:

1. At an early stage, once initial quotations have been received and assuming the price has moved against a scheme, JLT can monitor buy-in prices against these triggers bringing the transaction back to market should conditions improve.
2. If the scheme has progressed and obtained guaranteed quotations, the 'preferred provider' will monitor their price against the agreed trigger points and advise accordingly. At this stage, JLT will complete checks against the other Buy-inSure providers to ensure the price remains competitive.

Wood explained: "This is an example of how Buy-inSure has learnt from the experience of the market. We've seen many cases where during the process the market has moved and a transaction is no longer possible from the scheme's point of view and they've had to walk away from the deal, despite it having cost them time, effort and money.

Phillips added: "A further advantage in this scenario is what I refer to as the 'irrational elements' of insurer pricing, things like asset availability within the wider organisation and so forth. The monitoring option allows the insurer to decide to further reduce their price and take a lower potential profit margin to ensure the transaction is completed."

Buy-inSure is by no means a static proposition; there is already a commitment to introduce an option to include an "underwritten bulk annuity" quotation to the process. This will allow schemes to issue a brief, one page, health questionnaire to members whose benefits are to be included in the transaction, thus removing the 'average health' assumption generally made by insurers. As Phillips explains: "Often trustees and scheme sponsors are very close to the group to be included in the transaction and would have an insight into whether there might be a level of impairment within that population, they therefore may feel that an underwritten bulk annuity quotation could offer a much improved premium compared with a 'vanilla' quotation."

Pedigree

The successful completion of a buy-in transaction is built on a foundation of robust processes, strong insurer relationships and significant market experience. Given this, and the significance of any such transaction, we strongly believe that any scheme seeking to complete a pensioner buy-in should appoint an experienced adviser, who has a track record of completing deals, to run the exercise.

JLT has a long and well established reputation for guiding clients with Defined Benefit pension schemes through de-risking transactions, from initial contact with insurers, to negotiating terms and the signing of contracts and placing business with all major buy-in/buy-out providers. Our team has completed in excess of 50 buy-in and buy-out transactions, ranging in size from below £1m to in excess of £500m, covering deal structures from conventional bulk purchase annuities to fully bespoke de-risking solutions.

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