

Media Comments 2020

Stock pickers fail to beat passive peers — and may see a ‘swift volte-face’ from investors

Active managers still trail passives during the pandemic-driven volatility, as evidence shows they're 'very poor at market timing'

<https://www.fnondon.com/articles/stock-pickers-fail-to-beat-passive-peers-and-may-see-a-swift-volte-face-from-investors-20200729>

David Ricketts, 29 7 20

This was supposed to be their time to shine.

After a more than decade-long bull market that proved simply tracking an index would bring in hefty returns, active fund managers welcomed the volatile market environment ushered in by the pandemic. Sifting the winners from the losers is supposed to be easier in rocky markets.

But it hasn't turned out that way. According to Morningstar, actively managed funds investing in UK large-cap stocks generated average returns of -17.30% between January and June, compared to -17.25% for the largest open-ended passive fund which invests in the same type of companies.

David Blake, a professor in the finance faculty of City University in London, said the overwhelming weight of academic evidence shows that stock pickers are “very poor at market timing”.

Underperformance during the Covid-19 pandemic is an example of this, he said.

“Most outperformance is due to luck, not skill,” said Blake. “It takes a very long period of performance data to distinguish skilled managers from lucky ones.”

Performance was only mildly better for those active managers investing in large-cap European stocks. Average returns for actively managed funds in this sector were -11.29% during the first six months of the year, compared to -12.19% for the largest index fund in the sector.

Separate research from AJ Bell, the online investment platform, shows the average UK All Companies fund delivered the same return as the FTSE All Share index between January and June at -16.6%. However, almost half of funds in this sector delivered returns lower than the index.

Performance among UK Equity Income funds was even worse, with more than two-thirds of funds in the sector delivering lower returns than the FTSE 100 index during the same period.

The only outperformers identified by AJ Bell were among US active stock pickers. But even that was ho-hum. The average US fund returned 3.6% on average, compared to 1.4% for the S&P 500, the research showed.

The failure of active managers to set themselves apart from their passive counterparts is likely to add fuel to accusations that most stock pickers are “closet trackers” – a term used to describe funds which charge fees for active management but fail to deliver returns above their benchmark.

The UK regulator has already taken action against closet index funds. Last year it fined a division of Janus Henderson £1.9m for charging retail investors hefty fees on two funds, despite shifting management towards a passive investing style. The FCA said the move amounted to “closet tracking”.

The fine came more than a year after the regulator revealed that several asset managers had paid back £34m to investors for overcharging them for active management.

Laura Suter, personal finance analyst at AJ Bell, said that because fund managers charge higher fees than passives, their returns need to be greater than the market just to return the same as the index after fees.

“Many have failed to do so in the year so far, meaning their fees are eating away at returns or putting them deeper into losses.”

Despite underperformance, some active fund managers have gathered new money from investors.

Data from the Investment Association, the trade body representing UK asset managers, showed retail investors ploughed a net £3.5bn into active funds in May. This figure was more than double the £1.3bn gathered by index funds during the month.

However, stock pickers are being warned they will need to demonstrate skill in order to keep hold of these fresh assets.

“If active managers continue to underperform we could see a swift volte-face to passives,” said Suter.

Alan Miller, founding partner of SCM Direct, said claims by active managers that they can protect investors from substantial losses during a downturn by using stock picking abilities are “completely bogus”.

“They will have to invent some new argument to stop the rush by investors out of active funds into passive funds attracted by more performance, more transparency and less fees,” said Miller.

To contact the author of this story with feedback or news, email [David Ricketts](mailto:David.Ricketts@ajbell.com)

**Post-COVID-19 study provides framework for mortality planning, by Gail Moss, IPE
21 May 2020**

<https://www.ipe.com/news/post-covid-19-study-provides-framework-for-mortality-planning/10045761.article?adredir=1>

New research measuring the impact of COVID-19 on the future life expectancy of older people in the surviving population has been published by The Pensions Institute.

The paper – The Impact of COVID-19 on Future Higher-Age Mortality – focuses on England and Wales and assesses the implications of the pandemic for pension funds, insurance companies and academics who model and measure longevity risk. It also provides a framework for analysing future data on the virus.

Its authors are Professor Andrew Cairns, department of actuarial mathematics and statistics, Heriot-Watt University; Professor David Blake, Cass Business School and director of the Pensions Institute; Amy Kessler, head of longevity risk transfer, Prudential Retirement; and

Marsha Kessler, CEO of M Kessler Group, a speciality consulting firm focused on data-driven transformation in healthcare.

While other COVID-19 research covers the spread and control of the virus, the authors of the study believe it is the first to cover mortality of the surviving population after the pandemic has abated.

The paper's key finding is that COVID-19 seems to increase each cohort's short-term mortality risk by a common multiplicative factor. In other words, if mortality rates rise temporarily at 10% in relative terms at one age, they will also rise by about 10% at other ages.

Blake told IPE: "Unlike other research, our finding is that there is some early acceleration of death and that those who die would likely have done so within, say, a few years from other causes such as respiratory disease. That should, therefore, lead to fewer deaths in the short term from other causes."

The researchers also examined how socio-economic differences impact COVID-19 mortality.

They found that once they controlled for regional differences in mortality rates, COVID-19 deaths in both the most and least deprived groups are proportional to the all-cause mortality of these groups.

However, the groups in between have lower COVID-19 deaths – by around 10-15% – compared with their all-cause mortality.

"The reason for this is not clear, although it might be because they were better able to adapt to lockdown and maintain more effective social distancing than the other groups," said Blake.

And current behavioural responses to the pandemic were also examined.

They observed that some surviving patients who needed intensive care could acquire a new impairment such as kidney damage, which will reduce their life expectancy.

Furthermore, many people in lockdown have not sought timely medical assessments for potential new illnesses such as cancer, with the consequence that mortality rates unrelated to COVID-19 could increase in future.

Other indirect consequences include increased alcohol consumption, and poorer health and even suicides as a result of long-term unemployment.

However, some people may retain healthier lifestyles adopted during lockdown, which could increase their life expectancy.

Predictions

The authors said their research provides not only data, but a simple and flexible modelling framework which will be effective using future data, without the need to change existing models.

They also predict a total of 80,000 COVID-19-related deaths in England and Wales. However, the model's flexibility means it can be applied to different levels of such deaths.

Blake told IPE: "It can also be applied to different European countries. While the different parameters will have to be changed to match the circumstances of each country, the model itself does not have to be changed."

Such parameters could include patterns of infection and death rates at different ages, and the years of life lost by those who die from COVID-19, again at different ages.

Kessler told IPE: “Whether for valuations, pricing or the underwriting of risk, the industry has been waiting for this kind of framework.”

She continued: “There are three major challenges in working with data relating to the pandemic: adjusting experience data from the pandemic period; making assumptions about anti-selection risk going forward; and assessing volatility to come. The great thing is this research addresses all three challenges.”

The research is available [here](#).

Covid-19 unlikely to affect long-term mortality rates, by Angus Peters, Pensions Expert, 20 May 2020

<https://www.pensions-expert.com/DB-Derisking/Covid-19-unlikely-to-affect-long-term-mortality-rates?ct=true>

On the go: The coronavirus pandemic is likely to have a very muted impact on the pensions sector, according to a new report emphasising that a reasonable proportion of Covid-19 deaths would have occurred this year anyway.

The paper on future higher-age mortality, produced by the Cass Business School and the Pensions Institute alongside Heriot-Watt University and insurer Prudential, points to the proportionality of deaths at different ages due to the virus and those due to all causes.

It argues that the disease acts as a multiplicative factor on existing mortality trends and that the life expectancy of healthy people will not be drastically changed, as only a small percentage of deaths have so far been people with no pre-existing conditions.

Adopting the worst-case scenario of an uncontrolled pandemic with 500,000 deaths, modelling showed that due to accelerated deaths being concentrated among those with shorter life expectancies, a drastic spike in monthly deaths for a cohort of 75-year-olds would be followed by a dip below the non-pandemic projection of monthly deaths, before the mortality experience reverts to previous assumptions.

Even under this model, life expectancy for the entire cohort only dropped to 13.04 years from 13.14 years if no pandemic had occurred. Survivors would have a life expectancy of 13.45 years.

The smaller the overall tally of Covid-19 deaths, the quicker this spike and dip feature would revert to the norm – leading the academics to conclude that at a best estimate of between 75,000 and 80,000 deaths, little impact is likely to be observed on the life expectancy of survivors. The baseline case would see 7 per cent of all deaths over the next year linked to the disease, with an average of four years of life lost on average.

“We believe that the effect of Covid-19 will be to accelerate the deaths of people who aren’t very well and might have died in the near future anyway,” said Dr David

Blake, professor of pension economics at Cass Business School and director at the Pensions Institute.

The study does, however, admit that between 7 and 12 per cent of deaths are people who had the potential to live significantly longer.

The paper has implications for the government, in its weighing up of the economic cost of continued lockdown against the risk to life, but also for pension schemes building their assumptions about member longevity.

“Many of us in the industry are about to start working with datasets that have the pandemic in them,” said Amy Kessler, head of longevity risk transfer at Prudential Retirement.

She said pension providers will need to know how to adjust experience data, whether there will be so-called anti-selection, and the volatility that can be expected in deaths data.

Headlines have focused on the disproportionate impact of Covid-19 on more deprived demographics citing possible increased exposure, and the report confirmed that the worst-off have been hit the hardest by the virus.

However, it also found that deaths for the three most deprived and one least deprived deciles of socio-economic background were proportional with all-cause mortality. Only middle deciles fared comparatively better, perhaps due to better adaptation to lockdown and social distancing.

The report’s authors did suggest that direct and indirect results of the virus, including new organ damage sustained during infection but also lockdown effects such as increased reluctance to visit hospitals for non-Covid-19 services, could have an as-yet unknown impact on future mortality.

Indirect Covid-19 consequences ‘may have greater impact on life expectancy’ – PI, by Laura Blows, Pensions Age, 20 May 2020

<https://www.pensionsage.com/pa/Indirect-Covid-19-consequences-may-have-greater-impact-life-expectancy-PI.php>

The indirect consequences of the Covid-19 crisis could have a bigger impact on future life expectancy than the immediate consequences of the pandemic, research from the Pensions Institute has revealed.

The Impact of Covid-19 on Future Higher-Age Mortality paper, co-authored by the Pensions Institute, Cass Business School, Prudential Retirement, Heriot-Watt University and M Kessler Group highlighted evidence that many people in lockdown did not seek a timely medical assessment for a potential new illness such as cancer,

or deferred seeking treatment for an existing serious illness, meaning the consequence that non-Covid-19-related mortality rates could increase in future.

The paper cited Cancer Research UK findings that referrals by doctors for urgent hospital appointments had fallen by 75 per cent – equivalent to 2,300 cases per week. Another 400 cancers a week were being missed because 200,000 weekly screenings for breast, cervical, lung and bowel cancer was suspended during the lockdown. IT also references a study from University College London and the Health Data Research Hub for Cancer, which predicted that up to 18,000 more people could die from cancer over the next year in England because of the impact of Covid-19.

The Impact of Covid-19 on Future Higher-Age Mortality report found that other indirect consequences include self-isolation during lockdown leading to an increase in alcohol and drug consumption by some people, which might reduce their life expectancy. The researchers noted if there is long-term unemployment as a result of the pandemic, this could lead to so-called 'deaths of despair' in the future.

It also warned that the long-term impact of the economic downturn might reduce spending on medical and pharmaceutical research, causing a reduction in long-term future mortality improvements and may cause general medical advances to stall for a number of years as resources are redirected to finding a vaccine and treatments for Covid-19.

However, some people might permanently change their social behaviour, such as social distancing or wearing face masks in public, or seek treatments that delay the impact or onset of age-related diseases that affect their susceptibility to coronavirus, which could have the effect of increasing their life expectancy, the paper added.

The research also found some surviving coronavirus patients at all ages who needed intensive care could end up with a new impairment, such as kidney damage or reduced liver function, which will reduce their life expectancy. But for survivors as a whole, the paper conjectured that their life expectancy has increased relative their age cohort before the outbreak of the pandemic. However, the increase in life expectancy of survivors is likely to be very modest, around 0.2 per cent at age 65, it stated.

"It is too early to quantify these possibilities, although it is conceivable that these indirect consequences could have a bigger impact on future life expectancy than the immediate consequences of the pandemic," , Prudential Retirement head of longevity risk transfer, Amy Kessler, said.

The research also examined how socio-economic differences impact Covid-19 mortality.

"We have also looked at variation in mortality by socio-economic group using data from England and Wales," Pensions Institute director and Cass Business School professor, David Blake, said.

“Once we control for regional differences in mortality rates, Covid-19 deaths in both the most and least deprived groups are proportional to the all-cause mortality of these groups. However, the groups in between have lower Covid-19 deaths compared with their all-cause mortality.”

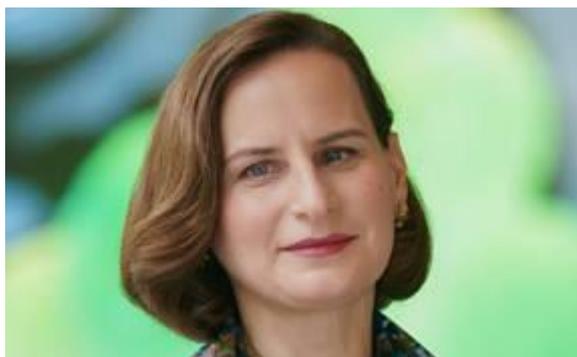
The reason for this is not clear, although it might be because they were better able to adapt to lockdown and maintain more effective social distancing than the other groups, Blake added.

“The key finding that Covid-19 seems to increase each cohort’s short-term mortality risk by a common multiplicative factor will help pension funds and insurers to properly assess liabilities now and in the future, Kessler stated.

“Assuming Covid-19 mortality in England and Wales between 75,000 and 85,000, we expect the impact on the mortality rates of the surviving population to be very modest,” Heriot-Watt University department of actuarial mathematics and statistics, professor, Andrew Cairns, concluded. “The impact on mortality rates post pandemic is not expected to be material unless deaths turn out to be a multiple of these levels.”

Covid-19 impact on survivor mortality rates to be 'modest', study finds, by James Phillips, Professional Pensions, 20 May 2020

<https://www.professionalpensions.com/news/4015474/covid-19-impact-survivor-mortality-rates-%E2%80%98modest%E2%80%99-study>



Pension schemes and life insurers should be prepared for a modest change to their assumptions for mortality rates in the post-Covid-19 world, an academic study suggests.

Analysis of data from England and Wales to 12 May finds that deaths from the novel disease are largely, but not always, confined to those who tend to be less healthy than others in their age group. The result is that the years of life lost through early death are less than the average for each age group.

The research came as latest Continuous Mortality Investigation data revealed deaths in week 19 of 2020 (2 May to 8 May) were 1.4 times higher than in the same week of 2019, while death figures are 61,000 higher than expected since the start of the pandemic compared to 2019 mortality rates. However, it warned that death figures may be understated due to reduced data collection over the VE Day anniversary bank holiday weekend.

The academic paper - The Impact of Covid-19 on Future Higher-Age Mortality, written by Heriot-Watt University professor Andrew Cairns, Cass Business School professor and Pensions Institute director David Blake, Prudential Retirement head of longevity risk transfer Amy Kessler, and M Kessler Group chief executive Marsha Kessler - also concluded that many of those who have so far died during the pandemic "would have died anyway in the relatively near future". This is due to the presence of other life-shortening illnesses such as heart diseases, Alzheimer's, and diabetes.

Consequently, the academics estimated that there would be a "very modest" increase in life expectancy for survivors of around 0.2% at age 65, implying that "the impact of anti-selection on future life expectancies is negligible". This is based on mortality from the disease in England and Wales being between 75,000 and 85,000.

However, it did highlight that there was some evidence that lower socio-economic groups were 10-15% more likely to contract and die from Covid-19 than those in middle-ranking deprivation groups, largely as a result of a lesser ability to conform to social distancing measures due to working requirements.

Blake explained: "Once we control for regional differences in mortality rates, Covid-19 deaths in both the most and least deprived groups are proportional to the all-cause mortality of these groups. However, the groups in between have lower Covid-19 deaths compared with their all-cause mortality. The reason for this is not clear, although it might be because they were better able to adapt to lockdown and maintain more effective social distancing than the other groups."

The paper also predicted death rates will be low in 2021, "due to anti-selection", before gradually reverting to previously predicted mortality levels - but added indirect consequences of the pandemic could affect overall mortality trends.

These factors include long-term impairments that may arise from contracting but surviving the disease, delayed diagnoses on other medical issues, increased alcohol or drug intake during the lockdown, and "deaths of despair" from long-term economic fallout or increase job automation. However, changes to social and workplace behaviour or increased use of anti-ageing treatments could have a converse effect.

Kessler said: "This body of work is crucial for mortality modeling as the pandemic progresses and in its aftermath. The key finding that Covid-19 seems to increase

each cohort's short-term mortality risk by a common multiplicative factor will help pension funds and insurers to properly assess liabilities now and in the future."

The paper will continue to be updated as further data becomes available.

New research measures COVID-19's unexpected impact on future life expectancy of senior citizens

Top longevity researchers examine the direct and indirect consequences of the virus on the most vulnerable population.

<https://news.prudential.com/new-research-measures-covid-19s-unexpected-impact-on-future-life-expectancy-senior-citizens.htm>

May 20, 2020

COVID-19 has created the worst global pandemic since the 1918 Spanish flu, impacting communities and economies around the world. For pension funds and insurers, who help ensure the financial stability of retirees and their families, the pandemic has caused uncertainty around the future of mortality rates, particularly at higher ages where the impact of the virus has been most acute.

Now, new research from leading experts on longevity risk from around the globe—including representation from the industry and academia—will help pension funds and insurers properly assess liabilities in a post-pandemic world.

"[The Impact of COVID-19 on Future Higher-Age Mortality](#)" is a new research paper authored by Professor Andrew Cairns, Department of Actuarial Mathematics and Statistics, Heriot-Watt University; Professor David Blake, Cass Business School and director of the Pensions Institute; Amy Kessler, head of Longevity Risk Transfer, Prudential Retirement; and Marsha Kessler, CEO of M Kessler Group.

Blake, Cairns and Amy Kessler, who together bring the brightest minds from Europe, North America and Asia each September to the annual International Longevity Risk and Capital Markets Solutions Conference, have used the lockdown to quickly assess the implications COVID-19 has for pension funds, insurance companies and academics who model and measure longevity risk.

"This body of work is crucial for mortality modeling as the pandemic progresses and in its aftermath," Amy Kessler said. "The key finding that COVID-19 seems to increase each cohort's short-term mortality risk by a common multiplicative factor will help pension funds and insurers to properly assess liabilities now and in the future."

The researchers also examined how socioeconomic differences impact COVID-19 mortality.

"We have also looked at variation in mortality by socioeconomic group using data from England and Wales," Blake said. "Once we control for regional differences in mortality rates, COVID-19 deaths in both the most and least deprived groups are proportional to the all-cause mortality of these groups. However, the groups in between have lower COVID-19 deaths compared with their all-cause mortality. The

reason for this is not clear, although it might be because they were better able to adapt to lockdown and maintain more effective social distancing than the other groups.”

The [new paper](#) also explores current behavioral responses to the pandemic, the lockdown measures governments around the world are using to contain it, and some of the indirect consequences for future mortality.

The research team found, for example, there is evidence that some surviving patients at all ages who needed intensive care could end up with a new impairment, such as kidney damage, which will reduce their life expectancy.

There is also evidence that many people in lockdown did not seek a timely medical assessment for a potential new illness such as cancer, or deferred seeking treatment for an existing serious illness, meaning the consequence that non-COVID-19-related mortality rates could increase in future.

Other indirect consequences include self-isolation during lockdown leading to an increase in alcohol and drug consumption by some people, which might reduce their life expectancy. The researchers noted if there is long-term unemployment as a result of the pandemic, this could lead to so-called “deaths of despair” in the future.

Other people, by contrast, might permanently change their social behavior or seek treatments that delay the impact or onset of age-related diseases, one of the primary factors that make people more susceptible to the virus—both of which could have the effect of increasing their life expectancy.

“It is too early to quantify these possibilities, although it is conceivable that these indirect consequences could have a bigger impact on future life expectancy than the immediate consequences of the pandemic,” Amy Kessler said.

“Assuming COVID-19 mortality in England and Wales between 75,000 and 85,000, we expect the impact on the mortality rates of the surviving population to be very modest,” Cairns concluded. “The impact on mortality rates post-pandemic is not expected to be material unless deaths turn out to be a multiple of these levels. We will, of course, continue to update this work as additional data become available, but wanted to share early findings as soon as possible.”

To watch a replay of Cairns, Blake and Kessler discussing their findings, [click here](#). Feedback on the paper from the academic community or industry professionals should be sent to [Marilyn Parris-Bell](#).

WebEx:

<https://prureirement.webex.com/recordingservice/sites/prureirement/recording/play/96b3e524824446cf9ab9663ea90b25fc>

Longevity & risk transfer: A booming market, By [Nick Reeve](#), February 2020 (IPE Magazine)

<https://www.ipe.com/reports/longevity-and-risk-transfer-a-booming-market/10043510.article>

Consultants expect high growth in UK pension risk transfers to continue after last year's record figures

Key points

- Consultants and insurers estimate £30bn-40bn worth of UK pension risk transfer deals a year for the next few years
- The North American market is also expected to see more activity in the near future
- As demand soars, insurers are becoming more innovative with their transactions

Last year marked a record year for the UK's pension risk transfer (PRT) market, with an estimated £50bn (€59bn) worth of transactions completed, including buy-ins, buyouts, and longevity swaps.

The total was almost double that of the previous year, according to [Mercer](#), which compiled the figures, and there were several innovative approaches to buy-ins and buyouts as demand from pension funds and competition among insurers reached new highs.

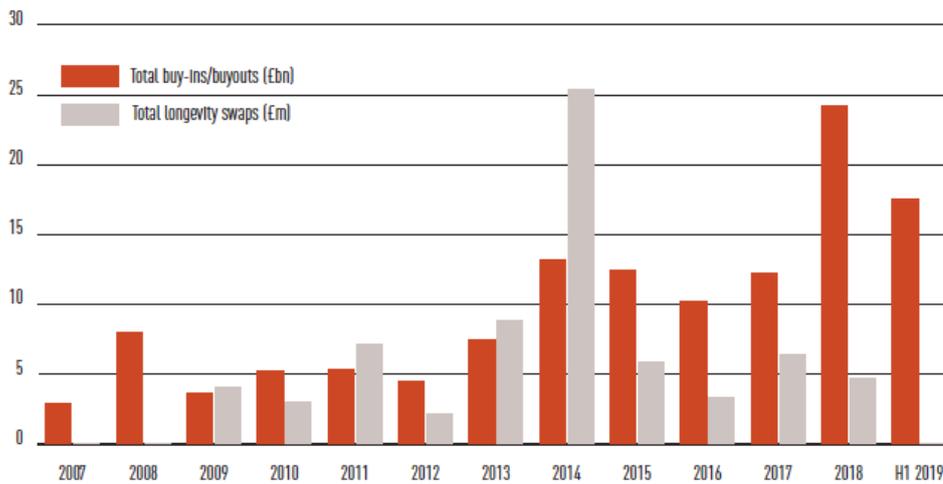
Communications company [Telent](#) conducted the biggest single deal of the year, agreeing a full buy-in of its GEC 1972 Pension Plan with Rothesay Life worth £4.7bn. The agreement will subsequently be converted into a buyout, with individual annuities issued to the scheme's approximately 39,000 members, making it the biggest buyout in the UK to date.

Publicised transactions ranged in size from 3i's £95m deal with Legal & General (L&G) to the £4.7bn Telent buy-in, although consultants say a number of smaller transactions were also completed, including some sub-£10m arrangements.

Some consultants have introduced streamlined processes for small schemes seeking a buy-in or buyout, simplifying the process for trustees and reducing the amount of time insurers have to spend analysing deals.

Larger schemes have been de-risking in tranches, selecting different insurers for various buy-ins as a way of obtaining the best price and diversifying insurance risk. [Marks & Spencer](#) and [National Grid](#) both took this approach in 2019.

The development of the UK's pension risk transfer market



Source: Hymans Robertson

Other innovations included Dresdner Kleinwort's £1.2bn deal with Pension Insurance Corporation (PIC) that involved the conversion of a £300m hybrid defined benefit (DB)/defined contribution (DC) scheme. See the case study for more detail.

Looking to 2020

The records set in 2019 have led some consultants to issue bold forecasts for what the next year – and decade – might bring.

[LCP](#) expects demand from schemes combined with healthy insurance company capacity to drive £30bn-40bn worth of deals a year from 2020. Mercer has estimated that the total for the next decade could be quadruple that of the previous decade's £135bn, which would require an average of more than £50bn a year.

This growth, Mercer says, will be fuelled by factors such as the ongoing maturing of the DB sector driving down prices as well as more reinsurers entering the UK market, adding capacity to pension insurers seeking to offload longevity risk.

“The next few years are looking bright for those schemes wishing to insure their members' retirement income,” says David Ellis, partner at Mercer. “As the UK's defined benefit schemes mature, the length of insurance contracts reduces, making them more predictable and cheaper to buy. Despite the increased demand, there is still capacity in the market for well-prepared schemes.”

Jay Shah, head of origination at PIC, says there are several constraints on the pension risk transfer sector that insurers and schemes need to negotiate. These include the scarcity of illiquid assets suitable for backing pension liabilities at a scale that is attractive to a fast-growing insurance balance sheet. PIC's assets under management have grown from £16.6bn at the end of 2015 to £39.6bn as of 30 June 2019.

In addition, the capacity of the reinsurance market will play an important role in insurers' ability to take on risk, as it dictates whether or not they can offload longevity risk.

Shah also highlights capital-raising and talent-sourcing as issues that must be addressed if insurers are to continue to take back buy-ins and buyouts at the rate the industry expects. Both PIC and fellow specialist pension insurer Rothesay Life issued bonds last year to help fund new transactions, while Shah says PIC has made a number of hires in the past year to support its growth.

"There are some constraints to the market, but the market has proven resilient as we saw last year, and my expectation is that it will continue at the high level we saw last year into the future," he says.

David Blake, professor of finance and director of the Pensions Institute at Cass Business School in London, says that, while there is no shortage of insurance companies to back deals, one potential stumbling block could be a lack of trained lawyers to advise on transactions.

"Increasing standardisation should help with that," he adds.

Netherlands case study: Chemours

While most discussions of pension risk transfer centre on the UK or North America, the Netherlands has had some limited action in the insurance sector.

Last July, Dutch chemicals company Chemours announced that it had agreed to transfer €820m worth of assets and liabilities from its pension fund, Stichting Pensioenfonds Chemours, to insurance company Nationale-Nederlanden (NN). Effective from October 2019, NN has taken on responsibility for paying the pensions of retired or deferred members.

In addition, these members were promised a one-off indexation payment on 1 January 2020 to compensate for past periods when the scheme was unable to pay inflation-linked uplifts. In the future, the roughly 3,000 members covered by the transaction will receive a guaranteed annual indexation payment.

Active members of the Chemours fund were transferred to the Centraal Beheer general pension fund (APF) at the start of 2020 where they will continue to accrue benefits.

Frans van Dorsten, chairman of Stichting Pensioenfonds Chemours, said in July that the scheme's board had "conducted extensive research" on how "future-proof" the pension fund was. Transferring members to an insurer or an APF was a direct action to improve the likelihood of members receiving full indexation, he said.

The Chemours transaction was unusual by Dutch standards. Normally, a buy-in or buyout will cover the entire population of a pension fund – the Chemours deal with

NN was just the second time specific tranches of a scheme's membership had been transferred, according to a spokesperson for the insurer.

Tight regulation from regulator De Nederlandsche Bank makes it difficult to split transactions as members of the same pension scheme are not allowed to be treated differently.

For Chemours, this meant the scheme's board had to ensure that the deferred and retired members transferring to

NN were not going to be treated better or worse than the active members transferring to the Centraal Beheer APF.

The NN spokesperson told IPE: "This is a more complex way of calculating economically equivalent rights for different groups, including the level of guarantees relating to the accrued entitlements.

This is, in general, a circumstance to deal with, and will become easier to cope with when more experience is gained in this market...

"Now that more experience is available with partial buy-ins or buyouts, it is expected that more pension funds will work towards transferring deferred and/or retired entitlements to insurance companies."

There is good news for smaller DB schemes too, according to LCP. It estimates that there will be about 10 transactions covering a total of £15bn in 2020, which would leave more capacity for deals in the £250m to £1bn range.

Iain Pearce, a consulting actuary at [Hymans Robertson](#), says the next big step for insurers and reinsurers will be to take on more non-pensioner business.

"The vast majority of bulk annuity business has been for pensioners who receive their benefits already," he says. "Most schemes take the view that those are cheaper to insure.... but we are seeing schemes generally becoming better funded and well hedged. They may have already insured a lot of their pensioners and are able to insure their non-pensioners as well, or a proportion."

Pearce says insurance companies are actively working on their propositions to write non-pensioner business, including investing in administration capabilities and reserving capital. This, in turn, is encouraging reinsurers to assess whether they can offer non-pensioner longevity reinsurance.

David Blake expects data science to be applied to more areas of the pension risk transfer market. He points to L&G's introduction of a blockchain-powered risk-transfer platform last year, designed to streamline the reinsurance aspect of the process.

Launching the service – dubbed ‘estua-re’ – in June 2019, Thomas Olunloyo, CEO of L&G Reinsurance said blockchain was “uniquely suited to the long-term nature of annuities business as it allows data and transactions to be signed, recorded and maintained in a permanent and secure nature over the lifetime of these contracts, which can span over 50 years”.

Blake explains that this “will introduce greater transparency, since all parties will have access to the latest version of the ledger database of scheme member information”.

The Cass professor also calls for the introduction of reinsurance ‘sidecars’ to allow investors such as sovereign wealth funds to share in the risks and returns of pension reinsurance. In addition, he favours longevity bonds to “help kick-start a liquid market and set the risk-free term structure for mortality rates as it has done in the fixed-interest and index-linked bond markets”.

PIC’s head of origination structuring Uzma Nazir says insurers will have to get used to renegotiating longevity swaps when taking on DB schemes with legacy insurance contracts.

“The next few years are looking bright for schemes wishing to insure their members’ retirement income” - David Ellis

Schemes with longevity hedges already in place have begun asking insurers such as PIC to take on the longevity swap and convert it into a buy-in. The Scottish Hydro-Electric Pension Scheme completed such a deal in November 2019, insuring £750m worth of liabilities, and Nazir says PIC has more in the pipeline.

“Normally when we do a buy-in, we get our own longevity swap,” Nazir says. “These transactions come with a longevity swap that the trustees negotiated. On paper, it sounds ideal because that’s what we’re looking for anyway, [but] there are a lot more parties involved in the discussions, which adds to the complexity of things.”

Pension schemes have different requirements to insurers regarding reporting and calculations, Nazir says. This means insurers may have to renegotiate the terms of the longevity swap when converting it to a buy-in.

“Trustees having a clause in a longevity swap contract to say that this might happen in the future, and how it might happen, is quite helpful,” she says.

Outside the UK

The UK is not the only market opening up to more risk transfer business. L&G completed its first transaction in Canada in April 2019, following the formation of a strategic partnership with Brookfield Annuity Company. The two companies supported a CAD200m (€138m) buy-in with an unnamed pension scheme, with L&G as the reinsurer.

The North American market is central to L&G's international pension risk transfer strategy, according to a company statement announcing the Canadian deal. As of April 2019 the group had written £2.5bn of international pension insurance deals.

[Prudential](#) Financial – the US insurance giant that has reinsured dozens of large UK transactions – affirmed its market leading position in its home market with a \$1.8bn (€1.6bn) buyout of the Lockheed Martin pension scheme.

UK case study: Dresdner Kleinwort

Transferring defined benefit (DB) liabilities and assets to an insurer is an accepted norm for the UK pension sector. In April 2019, however, one scheme managed to extend this to include its defined contribution (DC) fund.

The Dresdner Kleinwort Pension Plan – part of Commerzbank – agreed a £1.2bn (€1.4bn) full buy-in with Pension Insurance Corporation (PIC), split across three transactions.

The first was a relatively straightforward £900m buy-in of the plan's DB section. The second and third involved its £300m DC section and allowed members of the hybrid scheme the option to transfer their DC savings out or convert them into a DB equivalent, ready for transfer to PIC.

While this sounds straightforward on the surface, as Uzma Nazir, head of origination structuring at PIC, explains, there were several parts to the transaction that required PIC to be flexible.

When the Dresdner Kleinwort scheme came to market, the trustees brought in an independent financial adviser to help members decide whether to opt for a DB conversion – and go to PIC – or transfer to an alternative DC scheme. However, this process was not complete when PIC was chosen as the insurance provider. This posed a problem for PIC when deciding how to price the deal.

“When we talked about pricing, we had to take a view on how much of that DC section was actually going to come across to us,” Nazir says. “That’s important because the nature of the liabilities and the duration of pension scheme affects the assets that we would be looking to invest in. That, in turn, affects the underlying price that we would give to the scheme.”

In addition, the DC section had a DB underpin, meaning that each member had an individual DC pot that would be topped up by the company if it underperformed the minimum DB level. This meant that PIC had to take the unusual step of calculating premiums on a per-member basis.

“We had to do individual premium calculations per member, compare it to how much DC pension that person had, and then look at whether there was extra money that we needed from the scheme or the company to come across for that member if

they chose to stay with us,” Nazir explains. “Usually we don’t do individual calculations.”

These complications meant PIC and the Dresdner Kleinwort scheme signed two agreements covering the DC section, one to cover those who had already made their decision about converting to DB, and another to cover those who had yet to decide. The latter became effective in mid-2019 once all members’ decisions had been confirmed.

David Curtis, chairman of the plan’s trustee board, said at the time: “This transaction required a high level of creative thinking by our advisers, LCP, in designing a structure combining the member choice programme with the insurance transaction.”

He praised PIC’s flexibility, “especially in relation to the insurance of the [DC] section, which is an unusual transaction and, I believe, a great result for the membership”.

PIC publicised five large transactions in 2019, according to IPE research, insuring almost £6.8bn worth of liabilities. This included a £3.4bn buy-in deal with British American Tobacco, which at the time was the largest ever to include both pensioner and deferred members.

In Europe, Italian financial services group Generali announced plans to enter the de-risking market at the end of 2018, setting up a cross-border pension fund, although it has yet to complete any transactions.

Meanwhile, the Dutch pension insurance market has shown signs of growth in recent years – although it is still a fraction of the size of the UK’s. Chemicals company Chemours became the latest to seek an insurance-based solution to its de-risking plan (see case study) last year, while the €581m pension fund for publishing company VNU is exploring options for an insurance buyout.

Nationale Nederlanden (NN), the insurance company behind the Chemours transaction, says that pension funds and sponsoring employers “are looking for future-proof solutions and a reduction of risk”, according to a spokesperson. “We expect that the market for buy-ins and buyouts will increase in the coming years, with more and more focus on carve-outs from specifically deferred and/or retired participants.”

The consensus among industry experts is that the volume of pension risk transfer activity has undergone a step change in the past two years, with far more activity expected in the years ahead.

With this comes challenges for all actors to maintain the insurance and reinsurance sectors’ capability to take on these volumes. Demand also looks set to bring about new technological developments and innovative approaches to further secure the future benefits of millions of DB scheme members.