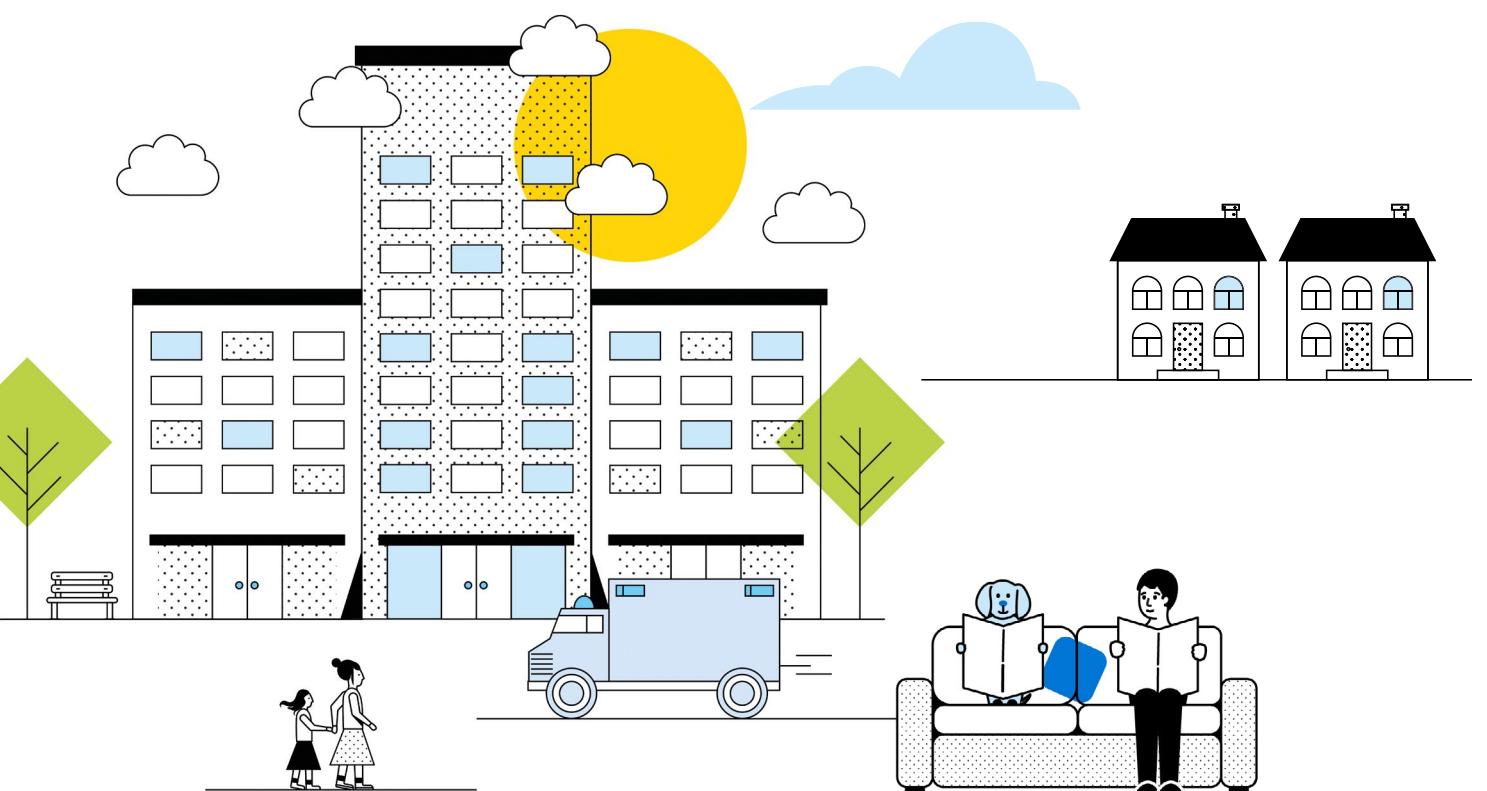


Overview of the pension risk transfer market



2020: The story so far

As we reflect on the first half of 2020, few could have predicted how different the world would look compared to 2019. The Covid-19 pandemic has resulted in a tragic loss of life and has had a significant impact on the UK economy.

Throughout this period the bulk annuity market has proven to be resilient. We estimate that over £10 billion of business was written across the UK market in the first half of the year. While some pension schemes have had to delay their de-risking journeys, others have been able to take advantage of market opportunities and secure buy-in and buyout pricing at particularly attractive levels.

In this update we provide an overview of the year to date, the volumes of bulk annuity business we've written and how we've responded to Covid-19.

Supporting our customers:

Our number one priority has been to look after our existing customers during these difficult times. We cover how we've done this on page 6 [6](#)

Open for business:

We've seen a steady flow of quote requests over the first half of the year and market volatility has resulted in some excellent pricing opportunities. Our teams adapted quickly to working remotely and we've remained open as usual for new business. Between moving to remote working and the end of June we completed 19 transactions, including three on the same day in the first full week of lockdown.

Global opportunities:

Our US business had a strong start to the year with \$312 million of premium written, an increase of 6% compared to the same period in 2019. This included our first global transaction.

See page 4 [4](#)

New business volumes:

During the first half of 2020 we wrote 25 UK bulk annuity policies and received £3.2 billion of premium in respect of new business, including balancing premiums. This compares to 15 bulk annuity policies and £6.3 billion of premium received during the first half of 2019.

Bulk annuity sales H1 2020	£0m – £100m	£100m – £500m	£500m+
Total size (£m)	618	700	1,858
Average size of transaction (£m)	33	233	619
Number of transactions	19	3	3

This step-up in transaction numbers illustrates the success of our Small Schemes Proposition. See page 4 [4](#)

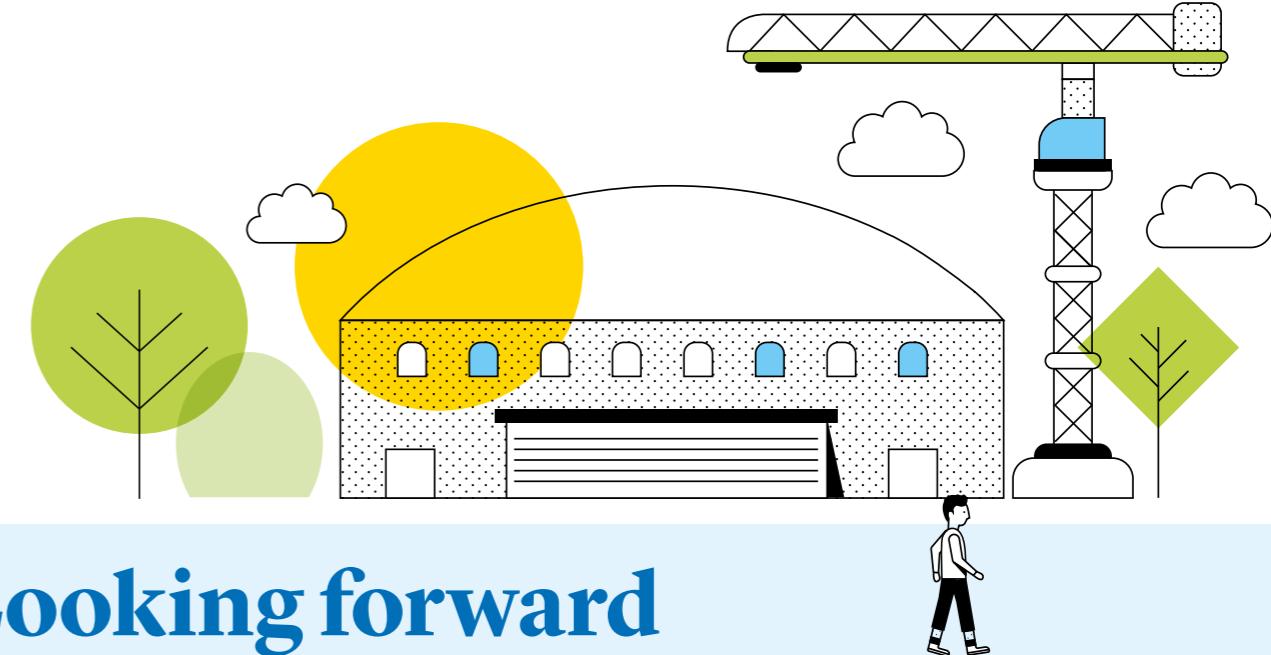
The power of pensions:

We use the funds generated by our bulk annuity business to invest in the real economy; this investment is even more important now as the UK economy starts on its long road to recovery.

Our paper 'The power of pensions' found [here](#) highlights how harnessing the pensions wealth we already have in the UK can deliver regeneration, transport, housing and renewable energy investment. In turn, these investments contribute to funding the long-term commitments made to existing pensioners.

Longevity insurance:

In the first six months of 2020 £11 billion of liabilities have been covered by longevity insurance, which is already close to the £11.8 billion secured in total in 2019. This includes the UK's second-largest longevity insurance contract at £10 billion, which was entered into by three Lloyds Banking Group pension schemes.



Looking forward

Given the year to date, it's challenging to forecast what the rest of 2020 will hold. Although market participants predict that UK bulk annuity volumes will be lower this year than they were in 2019, we expect that 2020 will be a strong year, potentially with the second or third largest annual premium total on record.

Whilst there are fewer larger transactions than in 2019, this presents a greater opportunity for smaller and medium sized pension schemes. We expect the demand from smaller pension schemes to continue throughout the rest of 2020 and beyond.

In order to generate insurer engagement we advise trustees to have a clear price target and to be transaction-ready; so that they can move quickly when their price target is met. This advice is even more pertinent in 2020 when market volatility means pricing opportunities may be short-lived.

Our reaction to the Regulator's guidance for DB superfunds

2020 is widely expected to be the year of the first consolidator deal. We welcome the clarity provided in the Pensions Regulator's guidance for Defined Benefit (DB) superfunds, which was released in June.

The guidance sets out the standards that commercial consolidators are expected to meet before longer-term legislation is in place. It provides necessary clarity on previously hotly debated issues such as capital requirements.

But questions around meeting these standards do remain, including how pension schemes will assess whether they're within five years of buyout and so shouldn't be considering a consolidator model.

We support innovation in the market, provided it genuinely enhances member protections. However, even with the guidance in place the irreversible decision to forego the corporate sponsor's covenant in exchange for limited third party capital will not be an easy one for trustees. We expect securing benefits with a UK insurer to remain the preferred direct path for most trustees.

We've developed our own solutions, such as Assured Payment Policies (APPs) and Insured Self-Sufficiency (ISS), that improve access to de-risking opportunities for pension schemes that are not yet able to afford a bulk annuity (or choose not to). Neither solution falls within the remit of the Regulator's

guidance, as neither replaces the existing sponsor. ISS, for example, acts as a covenant enhancement tool rather than a replacement tool.

Both solutions draw on aspects of our well established bulk annuity framework, but are structured to achieve different types of de-risking. Further details of each solution can be found on our website [here](#).

We've also developed a non-vanilla application of ISS, which allows a pension scheme to run on with ISS support following sponsor insolvency. This particular application of ISS is likely to fall within the remit of the guidance and we're working closely with the Regulator on this.

Here are just a few examples of the de-risking solutions that we've delivered for smaller pension schemes in the first half of the year:

1. A global transaction



£38 million

buyout for the IHS (Global) Ltd Pension and Life Assurance Scheme

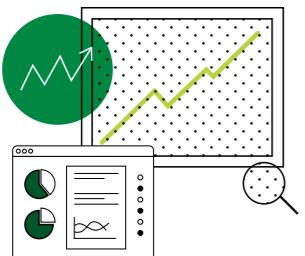
\$97 million

buyout for the IHS Retirement Income Plan

In March we completed a globally coordinated transaction, which saw us simultaneously insuring pension liabilities in both the UK and the US.

We're uniquely placed to offer market-leading pension risk transfer services in both territories and this was an exciting first for us to secure liabilities in both locations at the same time, through one joined up process.

2. A holistic solution to take advantage of market opportunities



£13 million

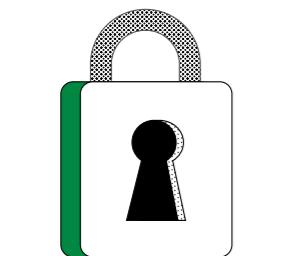
buyout for the BATA Superannuation Pension Scheme

As the pension scheme's fiduciary manager, Legal & General Investment Management (LGIM) designed an investment strategy to target the pension scheme's objective of buyout.

We worked closely with LGIM and regularly shared transactable buyout pricing. This helped in setting the investment strategy and also meant that the pension scheme was able to move quickly and lock into pricing when a transaction became affordable. We were able to provide a price lock to the pension scheme's assets, providing full price certainty, as these had been invested in an insurer-friendly portfolio.

By leveraging the expertise of the whole Legal & General Group we're able to offer existing clients a uniquely holistic approach to de-risking. As shown here, this can enable pension schemes to reach their objective sooner than expected.

3. Securing PPF+ benefits



£100 million

PPF+ buyout for the Countrywide Farmers Retirement Benefits Scheme

Following sponsor insolvency in March 2018 the pension scheme entered into Pension Protection Fund (PPF) assessment.

We worked closely with the pension scheme's advisers to develop an innovative solution for the pension scheme. In June we secured benefits in excess of PPF levels, provided the flexibility to secure additional benefits in the future and importantly delivered greater financial security for members.

This transaction builds on our track record of enabling pension schemes to exit the PPF and delivering beneficial member outcomes.

How we're supporting smaller pension schemes



Reacting to market demand

74% of UK DB pension schemes by number have assets of £100 million or less, but trustees of these pension schemes can find it challenging to get insurer engagement in such a busy market.



Innovating how we price and transact

Launched in 2019 our Small Schemes Proposition helps us to better deliver for this area of the market by streamlining our approaches to pricing, internal governance and contracts for smaller transactions.



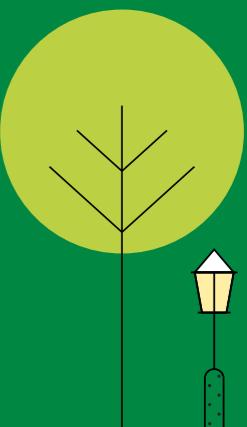
Delivering more quotations

In the first six months of 2020 our acceptance rate (the proportion of transactions that we provide quotations for compared to the number of requests that we receive) for smaller transactions has more than doubled compared to the same period from 2019.



Providing security for more members

In the first half of the year, we transacted 19 buy-ins and buyouts under £100 million and secured benefits for c3,000 members as a result – a step up from 11 such transactions and c1,500 members over the same period in 2019.



Looking after our customers

We provide income and security in retirement to over a million customers. The priority for our in-house customer services team in these challenging times has been to make sure that our customers feel reassured and looked after.

We wanted to ensure that our services could still be accessed by even our most vulnerable customers, who may not be able to leave their homes.

In order to do this we accelerated our move to digital, which included enabling:

- Members to sign their retirement option forms electronically
- Over the phone pension payment instructions and identification checks, allowing us to proceed with claims immediately
- Online bereavement notifications, helping us to support the families of our customers through difficult times

Here's what some of our recent customers have said:

“ A fantastic process, especially as I have been shielding due to Covid and cannot go out to the post office. ”

“ Terrific, speedy handling of my request for payment. ”

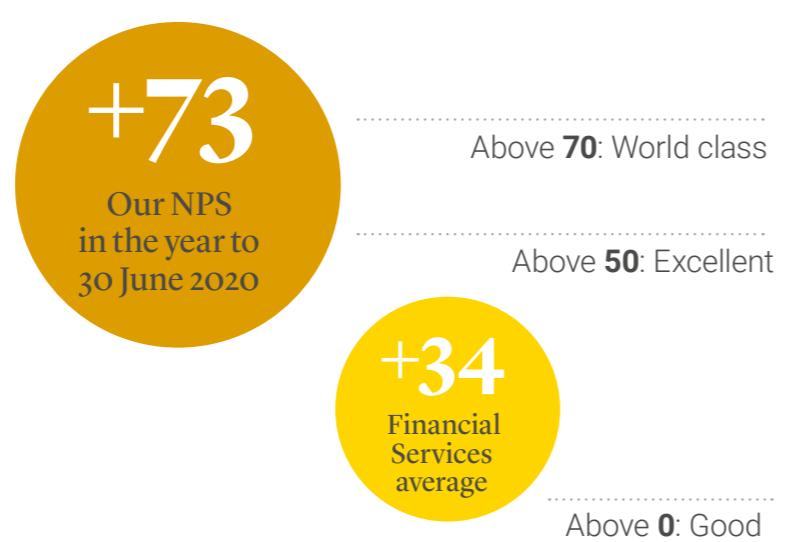
“ From the first phone call to the end conclusion I have been very impressed with this service. ”



How we track our customer feedback

We obtain regular feedback from our customers and track this using the Net Promoter Score (NPS) for customer satisfaction: this is a benchmark used across a lot of industries to test customer experience.

We're really proud of our NPS, which is widely regarded as being at a "world class" level.



Our latest customer initiatives

We continuously strive to better meet our customers' needs. Here are a few of our latest initiatives:



New policy packs, which include a guide to help customers understand their pension benefits



Free 24/7 helpline for customers and their families offering guidance on a range of financial, health, bereavement and legal matters



Free care concierge service for our customers and their families to help them find, fund and arrange appropriate care for themselves or any family member

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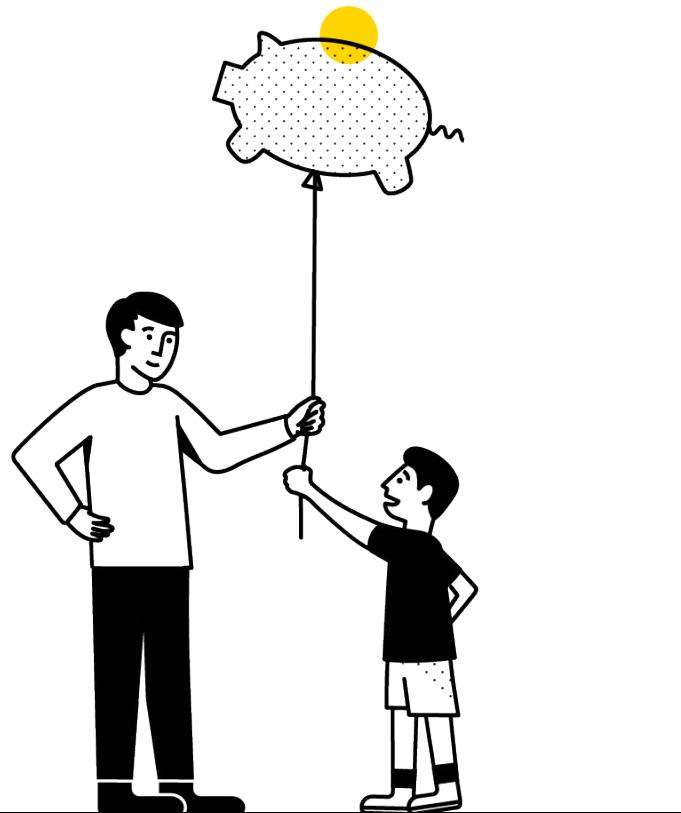
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