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Insurer Number 10 and Counting...

Market update

Last week Utmost Life & Pensions announced their first BPA transaction, a £20m buy-in for an unnamed scheme. They had been providing indicative pricing for some time so it was encouraging to see another new entrant finally come to the market, following Royal London in March this year.

There are other potential new entrants waiting in the wings and Canadian group, Brookfield Corporation, has already announced its intention to create a new insurer to enter the UK bulk annuity market. This would take the total number of BPA insurers in the market to eleven.

Curiously, since Brookfield is also ultimately the majority shareholder in Utmost, it will be interesting to see how Utmost and the new Brookfield insurer, once it emerges, will operate together in the same market. Brookfield certainly seems to have its attention on the UK market as also in the last week it was announced one of its US subsidiaries had reinsured a large block of business for Just Group, seemingly indicating a broader market interest than just direct BPA business.

Ofcourse new entrants could have benefits for schemes wishing to buy out in the form of more competitive pricing. This is likely to be most noticeable in the very short term as the new operators offer incentives as they look to build their books and their reputations. Moreover, this may in turn also prompt existing players to review their pricing and thereby lead to a more competitive pricing landscape for all.

Pricing should also benefit from additional capacity generally. However, the chronic shortage of administrator and other staff resource, over which both insurers and benefits consultancies are competing given the increase in BPA demand, means it is questionable how much additional capacity the new entrants will add initially.

Insurer Due Diligence implications

From a due diligence perspective the arrival of new entrants also creates some interesting challenges. For example, if the new insurers are created from scratch there are unlikely to be any meaningful accounts or other disclosures to evaluate asset and liability management expertise or capital requirements. Indeed for a brand new insurer the capital requirement would most likely be a notional one agreed with the PRA based on the details of an undisclosed business plan.

Even if the new entrant has written business historically, that business may be very different in nature to BPA business, as in the case of Utmost that has historically written largely unit-linked investment contracts which traditionally require much lower levels of regulatory capital. Asset management expertise for investment contracts may not necessarily be a strong predictor of the ability to manage the very different asset allocation and asset/liability management complexity required for a portfolio of Matching Adjustment-eligible investments.

Due diligence always needs to be more than just a quick inspection of solvency ratios. In particular for new entrants, it will be crucial to understand how they are managing the complex and interrelated risks to which their capital is exposed, possibly in the absence of much by way of historical disclosures. Asking the right questions is always imperative with insurer due diligence, and with potentially few historical cues to go by, it becomes even more so with players that are new to the field.

Further information

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