Beat the triage: Hints and tips

March 2023

Ruth Ward
Principal
LCP de-risking team

Insurer question 1: How likely is this deal to transact?

Beat the triage: Hints and tips

Over the next few pages we summarise key factors and practical examples that will feed into insurers' decisions of whether to quote on a transaction opportunity when they put it through their triage process. An experienced de-risking adviser can help schemes assess these factors and position a transaction in the best light.

Level of preparation

- ✓ **Thorough understanding and specification of scheme benefits, with legal review** – avoids surprises late in the day which render the deal unaffordable, e.g. discovering that the scheme's method of equalising retirement ages between male and female members was not legally effective, meaning additional liabilities to insure.
- ✓ **Good quality broking data** – data that is clearly laid out, consistent with the benefit specification, substantially complete, internally consistent and reasonably clean will ensure all participating insurers price the correct benefits and will give insurers confidence that there will be no mid-process data issues that generate extra work and execution uncertainty.
- ✓ **Additional data (where appropriate)** – providing appropriate non-benefit data (e.g. former job roles and salaries and (for larger deals) comprehensive good-quality experience data, together with recently collected marital status data) allows insurers to put forward their best price, with lower margins for uncertainty, providing better value for the scheme.
- ✓ **Assets suitably aligned with insurer pricing** – schemes with mismatched asset strategies can quickly see the affordability of a deal slip away from them in times of market volatility and insurers increasingly expect to see the assets suitably re-positioned before seeking pricing.
- ✓ **Thought given to assets used to fund a transaction and any residual assets strategy** – early planning is essential for illiquid asset holdings; equally, the recent LDI crisis highlighted the importance of the leverage and collateral requirements of any residual asset strategy. Insurers will want to know that sufficient thought has been given to potential solutions before schemes approach them.

Adviser and selection process

- ✓ **Experienced adviser** – will anticipate potential issues throughout the process and be skilled at collaborating with the various stakeholders to resolve issues that do arise and broker agreement on a suitable price and terms.
- ✓ **Robust and well-managed process** – will help keep everything on track and bring all necessary project strands together at the right time to allow a smooth transaction process with no false starts. Timescales should be clearly set out upfront.

Execution certainty

- ✓ **Good governance structure and clear objectives** – it should be clear who will make the final decision to transact, with suitable governance committees of key stakeholders.
- ✓ **Robust understanding of likely insurer pricing** – schemes need a realistic understanding of the range of potential insurer pricing (e.g. via a feasibility study) and, for a full buy-in, to be able to demonstrate that a deal will be affordable.
- ✓ **Target price** – key stakeholders should also discuss in advance the price at which they would be prepared to transact and other key criteria/objectives that a deal should meet; it can sometimes be helpful to disclose a "price hurdle" to the insurers (although this needs to be done at the right time in the process and in the right way) to give them confidence that a deal will proceed if the pricing requirements are met.
- ✓ **Firm sponsor engagement and advance consideration of corporate-side issues** – it's usually important for the scheme sponsor to be engaged in the process and supportive of the deal, even if additional sponsor funding is not required. Sponsors need to be comfortable with the company accounting impact of a buy-in/buyout and if they have a preferred accounting treatment in mind it's best they discuss this early with their actuary and auditor. Where a material contribution is required, it may be helpful for the sponsor to engage directly with the insurers or for sponsor commitment to be demonstrated in other ways.

> *Schemes that are well prepared for buyout have more certainty of execution. This includes having a legally reviewed benefit specification, clean and accurate data, a clear set of objectives and a robust governance structure in place, leading to better engagement with insurers and consequently a higher chance of transacting.*
>
> Deepash Amin, Origination Actuary,
> Pension Insurance Corporation / PIC

Insurer question 2: How likely am I to win this deal?

Beat the triage: Hints and tips

Capacity/timescales

- ✓ **Sufficient capacity to price and execute deal** – there can be crunch points in an insurer's capacity, e.g. due to being exclusive on a very large deal or even during peak actuarial exam season, when they may decline to quote as they don't have the bandwidth to provide pricing/ terms within the requested timeframe.
- ✓ **Reasonable deal timescales** – to counter the latter, experienced advisers will use their market knowledge and preliminary conversations with insurers on a new deal coming to market to set reasonable timescales that will allow the scheme's preferred insurers to participate in the process.

Adviser and selection process

- ✓ **Fair and well-managed process run by an experienced adviser** – insurers should have confidence that all insurers will be treated equally throughout (e.g. clear selection process and information shared at the same time with all insurers), with appropriate feedback provided at relevant points. This includes sensible and open conversations with insurers upfront regarding the merits of participating in the process.
- ✓ **Carefully structured broking process** – in a busy marketplace, thought should be given to the broking/insurer selection process. Schemes may get greater engagement from insurers by approaching a carefully selected subset of insurers, rather than the whole market. At the extreme, this can be approaching a single insurer with a stretching price target. At the larger end, there can sometimes be benefits in establishing a strategic partnership with a single insurer, particularly if there are scheme features that a particular insurer can uniquely solve.

Relationship

- ✓ **Previous relationship/deal** – insurers will be more willing to quote where they already have a buy-in (particularly if umbrella contracts are in place to easily facilitate follow-on buy-ins), or where they provide significant other services to a particular scheme/sponsor (e.g. insurers with an asset management business may prioritise schemes that use their asset manager).
- ✓ **Scheme relationship** – many insurers see benefits in having touchpoints and relationships with key stakeholders on the trustee and company side as well as with the buy-in adviser. We support this, particularly where the extra channels create additional understanding between the parties. For larger transactions, there can be clear benefits in engaging directly with insurers early in the process before formally approaching the market.

Scheme characteristics (i.e. insurer factors not directly in the scheme's control)

Transactions characteristics (e.g. size, membership profile etc.)

- ✓ **Different benefit profiles will suit different insurers** – an insurer may prefer deals with, for example, longer/shorter duration liabilities, or know that their pricing is more attractive for certain types of pension increase. This will be driven by the type of assets the insurer can source to deploy to a particular deal.
- ✓ **Membership profile** – some insurers will not participate in deals that involve a majority of non-pensioner members, whereas other insurers find they have a USP in this space.
- ✓ **Benefit structure** – schemes with more complex benefit features, e.g. underpins/unusual pension increases, should check early in the process whether all insurers are able to insure/administer these.

Reinsurance availability

- ✓ **Competitive reinsurance pricing** – an insurer will be more willing to quote if they are confident that the necessary reinsurance will be available on attractive terms (or for a smaller scheme if the insurer can use their reinsurance flow treaty).

> *When triaging we consider our likelihood of success – How many insurers are participating? Do we expect to be more competitive than on other deals? E.g. duration suits our current asset pipeline or bespoke reinsurance options are available.*
>
> Adrian Somerfield, Director, Pension Risk Transfer, Legal & General

Insurer question 3: How much work will this deal involve?

Beat the triage: Hints and tips

Level of preparation

- ✓ **Complete, relatively clean data and legally reviewed benefit specification** – avoids excessive queries during the pricing process and remodelling for any significant changes/misinterpretation of benefits/data in the pre-transaction phase.
- ✓ **Clarity on likely deal structure** – trustees and companies who have carefully considered affordability, accounting impact etc. of different deal structures (e.g. pensioner-only vs. full scheme buy-in) and therefore come with a simpler pricing request (rather than asking insurers to price multiple deal structures) will be viewed more favourably.
- ✓ **Clarity on desired terms (larger deals)** – it can help both sides for a scheme to set out early on in the broking process its requested contractual terms and highlight any points of particular importance to the trustee/sponsor. This streamlines the process of agreeing key commercial terms and avoids protracted legal negotiations once in exclusivity.
- ✓ **Streamlined process (smaller deals)** – smaller deals that follow a streamlined process and transact on pre-negotiated contracts (such as LCP's service – see here), will generally be less resource intensive and transact more quickly. Some insurers now insist on this before they will quote.
- ✓ **Illiquid assets** – these will potentially require significant early planning, and may affect the timing and structure of a deal. Insurers will look more favourably on schemes that have done their homework and come with clear requests/proposals.
- ✓ **Clear and comprehensive quotation request** – providing all required information upfront and setting realistic calculation dates (e.g. planned transaction date) avoids excessive queries and unnecessary pricing refreshes.

Adviser and selection process

- ✓ **Experienced de-risking adviser** – insurers will have confidence that potential issues will be anticipated and worked through efficiently, drawing on learnings from other deals wherever possible.
- ✓ **Legal adviser** – insurers will have a view on how experienced and pragmatic different legal firms are likely to be on contract negotiations and engaging a specialist legal adviser can be beneficial.
- ✓ **Shorter/simpler processes** – insurers prefer simpler processes with one or two rounds (certainly for smaller deals) and where a small number of insurers are shortlisted after initial pricing.
- ✓ **Residual risks** – residual risks cover adds a significant amount of additional work for insurers so schemes should complete proper preparation and have a clear view on the process before coming to market, i.e. to arrive at a view on whether this cover is required and the most efficient way to broker it.

Transaction characteristics (e.g. size, membership profile etc.)

- ✓ **Larger deals** – will necessarily involve more work and have longer lead-in times to a transaction, but will represent a bigger prize for which insurers may be willing to invest more resource.
- ✓ **Full-scheme vs. pensioner buy-in** – the latter will generally be more straightforward all else being equal.
- ✓ **Follow-on buy-ins** – insuring further tranches of liability for a scheme with an existing buy-in can be easier, e.g. the data and benefit structure are already well-understood and, for LCP-run cases, there will often be an umbrella contract (allowing the subsequent buy-in to be executed under the same contract).
- ✓ **Complexity of request** – for example, are multiple sensitivities required or non-standard features such as termination rights or collateral? In general, schemes should try to keep their requests focussed and trustees/sponsors should take advice and reach a clear position on their preferences before approaching the market.

Strong brand name

- ✓ **Strong brand name** – post-transaction PR opportunities may (in some cases) lead insurers to quote for a smaller/more complicated deal than they might otherwise have considered.

Post-transaction resource commitment

- ✓ **Good pre-transaction data preparation with minimal changes required post-transaction** – particularly important for smaller schemes, where significant post-transaction work quickly eats into insurers' margins. Insurers do not expect schemes to have completed GMP equalisation before coming to market but that could change in future.

We check whether the process is supported by expert advisers (consultants as well as lawyers) who will manage a slick, efficient and fair process.

Toby Holmes, Senior Deal Manager, Aviva

Schemes must be well-prepared on all fronts to get maximum engagement from insurers in triage processes over 2023 and beyond.

This goes well beyond good data…
… schemes should ask themselves what really matters to insurers when weighing up transaction opportunities.

Contact us

If you would like more information please contact your usual LCP adviser or one of our specialists below.

Charlie Finch
Partner
+44 (0)20 7432 0625
charlie.finch@lcp.uk.com

Ruth Ward
Principal
+44 (0)20 3824 7436
ruth.ward@lcp.uk.com

Clive Wellsteed
Partner, Head of Practice
+44 (0)20 7432 6651
clive.wellsteed@lcp.uk.com

At LCP, our experts help to power possibility by navigating you through complexity to make decisions that matter to your business and to our wider society. We are powered by our desire to solve important problems to create a brighter future. We have market leading capabilities across pensions and financial services, energy, health and analytics.

Lane Clark & Peacock LLP
London, UK
Tel: +44 (0)20 7439 2266

Lane Clark & Peacock LLP
Winchester, UK
Tel: +44 (0)1962 870060

Lane Clark & Peacock Ireland Limited
Dublin, Ireland
Tel: +353 (0)1 614 43 93