The future of policy in the DB de-risking landscape

On the 4th of July 2024 the PMI gathered at our Annual Conference together with hundreds of pensions experts to discuss "The Future of Pensions", with a focus on technology and policy.

The session "The future of policy in the DB de-risking landscape" was held by Sarah O'Sullivan, Head of Strategy and Regulatory Change at the Phoenix Group, and Kieran Mistry, Senior Business Development Manager at Standard Life.

It examined the current state and future outlook of DB pensions, noting how improved funding levels have driven a surge in BPA transactions and the ongoing trend of schemes seeking to de-risk their balance sheets.

Speakers also delved into the regulatory landscape, including the impacts of Solvency II reforms and PRA reviews on DB BPA pricing and funded reinsurance. The session highlighted the need for robust transfer frameworks and addressed Solvency UK reforms aimed at adapting the insurance regime post-Brexit.

Challenges related to transferring illiquid assets into insurers' matching adjustment portfolios were discussed, along with the need for PRA flexibility and potential solutions such as liquidity facilities.

On the following pages, you will find the key takeaways from the session.

Key Takeaways

01 Overview of the Bulk Purchase Annuity Market

The BPA market has seen significant growth over the past decade, driven by improving funding levels of DB pension schemes. This growth was accelerated by the 'great buyout acceleration' due to rising gilt yields, which made buyout premiums more affordable. The market has seen steady volumes of BPA transactions, with a notable increase in demand recently. Market segmentation has occurred, with some providers focusing on larger pension schemes and others on smaller ones.

02 Regulatory Changes Impacting the BPA Market

Recent regulatory changes, such as the DB funding code and Mansion House Reforms, have influenced the BPA market. These changes aim to ensure pension schemes are in a resilient and stable place by the time they mature. The reforms also include measures to spur investment in UK productive finance by DB pension schemes and offer more flexibility in surplus regulations.

03 Solvency II Reforms and Their Impact

Solvency II reforms have been a significant focus, particularly the matching adjustment changes. These reforms aim to ensure that insurance companies closely match their asset cash flows with their policyholder liability payments. The reforms also introduce new requirements for insurance companies to attest to the level of the matching adjustment they claim on their liabilities.

PMI

04 Challenges with In-Species Transfers of Illiquid Assets

In-species transfers of illiquid assets into matching adjustment funds are challenging due to regulatory approvals required from the PRA. Each insurance company has different approvals, making it difficult to transfer assets efficiently. There is a need for more flexibility and pragmatism from the PRA to streamline this process.

05 Future Developments and Innovations in Regulatory Framework

There is a push for more innovative and agile approaches in the regulatory framework, such as setting up a sandbox for asset investments. This would allow for more dialogue with the PRA about what assets can be invested in and help boost innovation in the insurance sector. The PRA has been supportive of this idea and plans to implement it in their business plan for 2024-25.