In UK, Prudential makes risk transfer easier for small pensions

By Editorial Staff *Thu, Mar 29, 2018*

The longevity reinsurance market for smaller pension buy-ins and buy-outs has been plagued by the administrative burden of pricing and executing contracts for many small transactions.

Prudential Financial and the Pension Insurance Corporation (PIC) have announced a new approach for expediting longevity reinsurance transactions for smaller pension buy-ins and buy-outs.

“This new approach combines an advance commitment of capital, known pricing and the bundling of multiple transactions into a single closing to enable PIC to more nimbly and efficiently address the risk transfer needs of small pensions and their retirees,” according to a joint release.

The approach, called a “flow reinsurance structure,” is designed to increase the insurer’s capital efficiency while reducing the administrative burden of the primary insurer and the reinsurer, the release said.

The process streamlines the reinsurance transaction process for PIC’s smaller pension buy-in and buy-out transactions that meet pre-agreed criteria. These blocks will be reinsured by Prudential at the model-determined price.

Historically, the longevity reinsurance market for smaller pension buy-ins and buy-outs has been difficult to serve because of the complexity and administrative burden of pricing and executing contracts for each small transaction.

Prudential and PIC, having worked together for years on multiple risk transfer transactions, started collaborating on this project almost two years ago as part of a joint effort to find better, more efficient ways to serve these smaller pension schemes.

At year-end 2017, PIC had insured 151,600 pension scheme members and had £25.7 billion in financial investments, accumulated through the provision of tailored pension insurance buy-outs and buy-ins to the trustees and sponsors of U.K. defined benefit pension schemes.