Retirement Income
JOURNAL

Prudential closes $8.4 billion pension reinsurance deal

By Editorial Staff *Thu, Apr 29, 2021*

'We see the use of a third-party onshore UK-regulated insurer as limited recourse intermediary as the logical next step in de-risking solutions,' Prudential's Rohit Mathur said.

Prudential Retirement's International Reinsurance business has closed its first reinsurance transaction involving an unnamed UK pension scheme using an independent UK-regulated insurer, Zurich Assurance Ltd., as intermediary.

The transaction closed in March 2021 and transferred longevity risk associated with £6 billion ($8.4 billion) of pensioner liabilities. It was Prudential's third largest U.K. longevity risk transfer transaction to date. Prudential Retirement is a business unit of Prudential Financial, Inc. (NYSE: PRU).

The transaction used a "limited recourse" or "pass-through" structure. The longevity and default risks are able to be passed through the insurer. It was the first transaction involving this type of structure entered into by Prudential Retirement and follows Prudential's International Reinsurance business re-branding at the end of 2020 to better reflect its focus on growth markets and new offerings.

"Last year, we launched funded reinsurance, where we reinsure both longevity and asset risk for our clients," said Rohit Mathur, head of transactions for Prudential's International Reinsurance business, in a release. "We see the use of a third-party onshore UK-regulated insurer as limited recourse intermediary as the logical next step in de-risking solutions."

Ian Aley, head of transactions at Willis Towers Watson, the actuarial adviser on the deal, said, "This is the third longevity reinsurance transaction we have partnered with Prudential on in recent years, transferring in total more than £30 billion of longevity risk. Each transaction used a different intermediary insurer—a Guernsey captive, a Bermudan captive and now Zurich as a UK insurer, demonstrating that structuring options exist for schemes with a wide range of governance, flexibility and cost requirements."

Dave Lang, vice president, International Reinsurance Transactions and Prudential's transaction lead on the deal, said, "Trustees are seeing the benefits in transferring longevity during the pandemic.

"Trustees who are looking to first hedge longevity risk have certainty that longevity transactions can be restructured within the agreed terms to meet their long-term de-risking goals, by accommodating future de-risking such as buy-ins, buy-outs, or transactions with consolidators in ways we have not seen before."

Willkie Farr & Gallagher LLP and Clifford Chance LLP advised Prudential. Willis Towers Watson, CMS and Eversheds Sutherland advised the trustee and joint working group. Pinsent Masons and Kramer Levin Naftalis & Frankel LLP advised Zurich. LCP advised the plan's sponsor.

"By using a regulated UK insurance company for longevity risk insurance in this capacity, a UK trustee gets many benefits, including cost certainty for the life of the transaction," said Greg Wenzerul, head of longevity risk transfer, Zurich Assurance Ltd. "The immediate removal of longevity risk, using plan assets in the most efficient and risk-aware manner, represents the optimal route for trustees of UK defined benefit pension plans to secure all their liabilities."