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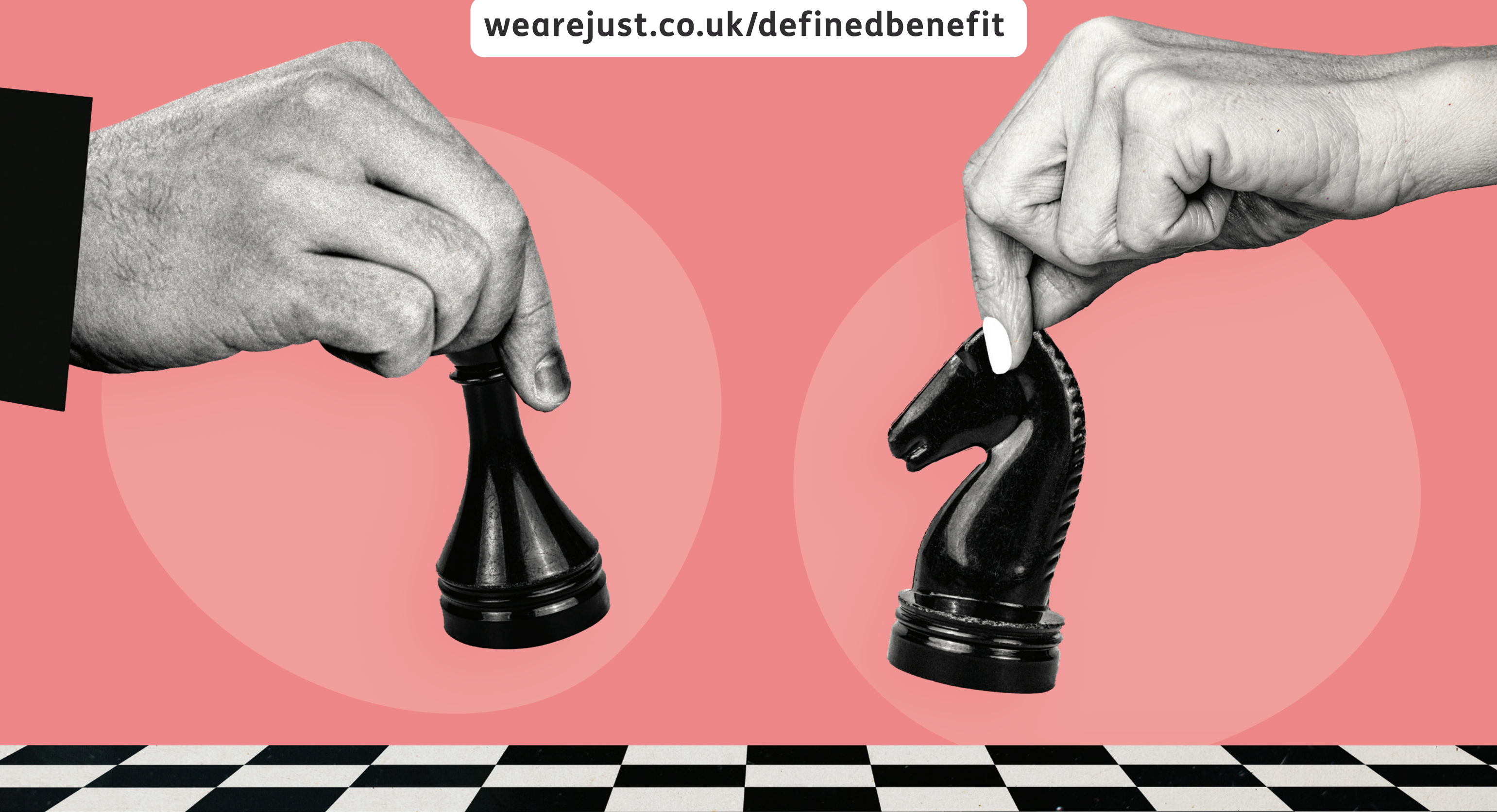

Bulk purchase annuities focus:

Changing times

Just Group managing director, Pretty Sagoo

Pretty Sagoo

Continual innovation

Just Group managing director, Pretty Sagoo, talks to *Pensions Age* about the company's continual innovation, to the benefit of schemes of all sizes looking to implement a buyout deal

The bulk purchase annuity (BPA) market has skyrocketed over the past couple of years, so your arrival at Just in April 2022 was perfectly timed to capitalise on the opportunities in the market. Could you explain how, under your leadership, Just has seized upon this opportunity?

The great thing about joining Just was that there was already a quite phenomenal team in place. That allowed me to not have to make lots of changes in personnel. I was able to focus on the structural things we needed to do to grow. The idea was to grow because, in 2021, we'd written £1.9 billion in business and, at that time, the BPA market was £28 billion. Then, in 2022, the total market was still £28 billion and yet we grew 50 per cent, even though the market was actually flat. So that was quite important for us to demonstrate that even when the total volumes in the market are flat, we can still grow how many deals we do.

In my personal experience, what insurers are consistently poor at is technology. If you combine actuarial, with computational and good commercials sense, that's the magic triangle. You can do amazing things.

So what we started in 2022 was a new platform build, from the ground up. Instead of outsourcing, we retrained our own people to be able to leave Excel and automate what we do, and really start looking at the end-to-end in the business.

The other thing I often observe is you have a lot of deal hubris. 'Oh, look at me, I did this big deal', that kind of thing. In pensions, our world is about taking care of the member. It's all fine and good saying, 'oh, we did this big deal', but if you haven't got all the infrastructure in the background to deal with a customer effectively, then it can come unstuck.

This is important in a growth market like BPA. You can't put all your focus on just winning deals. It has to be end to end. So that's quite important to me to make sure we don't just grow and try to do lots of deals, but that we get the end to end right, by investing in operations infrastructure.

After all, Just has already completed 400-plus deals. We've pretty much seen it all in terms of complexity. We've seen every nuance of member benefit that you can imagine.

Could you explain the practicalities of the transformation you have overseen since 2022, both in terms of technology and personnel?

We've doubled the size of our team over the past two and a half years. What we have also done is changed the way we recruit. We have shifted our hiring requirements; you have to have a mindset in most of our roles now where you're open-minded to embracing or using new tools, doing things differently.

On the tech front, from an infrastructure perspective, we actually have done quite a lot of engineering of the way we model cashflows.

When we first were testing our new pricing model, one scheme had 1,000 members and cashflows were running in three hours. When we took that first scheme and ran it through the new model, and we did the cashflows in 23 seconds.

For small schemes we provide a bulk quotation service, called Beacon. As a service it's still fairly unique. Other insurers, such as Aviva and PIC, have launched their own small scheme offerings. So for me it was important that we keep developing ours. Evolving that has been a core part of our mission. For us, it is important that it is as streamlined as possible and not complicated for trustees. A scheme can send their data in, and we just price the deal for them and that price would be the execution or near executable price.

But now we've developed it again, and engineered it even better. Two years ago, we had 100 schemes on it. Now it's got more than double. To achieve this, one of the vital things to do was developing it, while at the same time listening to the trustees and keeping it simple.

What about what you were looking to evolve in terms of Just, as a company, culturally?

Historically Just has not been known for doing the £1 billion-plus, larger deals. This is due to us being smaller in size, as a company, within the BPA space, along with our tradition, coming from being purely a retail business where we used to sell annuities and lifetime mortgages. Basically, we are the biggest broker for selling annuities on the open market. Where we come from is we're all only about retirement, nothing else. What we say is we're here to help people live a better later life. It's all about retirement, retirement, retirement.

And now, a big aim of our growth plan is, instead of being seen as a small-deal-only house, to be seen as a whole of market player in the BPA space.

We want to use our experience on smaller schemes to support larger schemes get the same innovative and excellent customer service that we pride ourselves on. So a lot of the work we're doing is just to demonstrate that in the market. To achieve this, what we have done is steadily and carefully grow the biggest size of the deal we've ever done. We have steadily grown that and we're going to continue to do so.

In the context of Just itself as a company, culturally, it is the nicest place I've ever worked in. This meant that I didn't have to do any fixing of culture. We're in this together, we're building the business together.

> **"We want to use our experience on smaller schemes to support larger schemes get the same innovative and excellent customer service that we pride ourselves on"**

So, from a cultural perspective, for me the biggest challenge is when you grow a business and you grow the number of people, how do you hold on to your 'pixie dust'? For me, that is the most important thing. That even as you grow, you still know everybody's name and you still know their roles and what they're doing. Because operations is only going to work really well with pricing and business development if they have a connection and they all understand where everybody fits within the process. Business development and operations are a key consideration here actually, as it comes back to that 'peacock' point. Operations has to be as prominent as business development to ensure an optimal experience for the end customer. That's really important to me, for everybody to have equal accountability, responsibility, and also glory and responsibility for what we do. That's really important to get right. Being a purpose-driven organisation really helps galvanise everybody around what we're here to do and what our contribution is, and our focus on the member as well.

What were the challenges you first foresaw when you joined and have they shifted over the two-years-plus since you joined? And what will your longer-term aims be for the future?

We have quite a huge change programme underway, which is still nowhere near complete. The big focus right now for us is data architecture. During the end-to-end bulk annuity process, there are lots of touch points on the same original set of data, so we are considering what trustees might struggle with, with that. So we are helping them get what they need out of their admin, getting it to the right quality and at the right time to help them complete the processes they're involved in.

Our focus is on the degree to which we can fix data flows and validation routines. And then we want to deliver that for the benefit of administrators and trustees, as we think that will be really powerful. That is one part of our transformation programme, and phase two involves how we transform operations. So our tech plan is to get ourselves to a place where the tools we use to assess data quality develops to the extent that a scheme may not necessarily even need to come and talk to us but can actually just use our portal themselves for their own benefit.

> **Summary**
> • The UK PRT market for DB schemes is currently febrile.
> • There is little-to-no constraint in capacity.
> • Governance and data remain at the forefront for schemes looking to make a transfer.

The buyout game

As DB pension scheme funding levels have generally improved over the past year or two, many of those seeking buyout have seen their journeys to wind-up accelerated. But how is the sector reacting to this increased demand and how can trustees best prepare their schemes for a smoother journey?

There have been tumultuous shifts in British life in recent years, usually predicated on the shifting of one administration to the other: Boris Johnson's turn in No. 10 gave way to the truncated stay of Liz Truss, who was followed just over 40 days later by Rishi Sunak. Sunak's stay in power came to its endgame in July when Keir Starmer took the keys to Downing Street.

Behind the scenes, while all this political jockeying has been going on, there have been massive shifts in the country's pension transfer market as an accelerating number of funds have moved towards obtaining buyouts through insurers.

LCP, writing in its *A Seismic Shift in Buy-Ins/Outs: How is the Market Adapting?* report last October, said: "[Our] analysis shows a sustained period of high demand over the next five years to 2028 as many schemes reach full funding on buyout and choose to insure. Estimates of transaction volumes over the next five years of up to £360 billion represent a substantial uptick from historic levels."

In a later paper, *LCP's Predictions for the Pension Risk Transfer Market in 2024*, the same company went further, predicting that volumes in 2024 would reach over £50 billion, which it said would make it 'another record year'.

It added: "The growing volumes will be driven by a greater number of £1 billion+ transactions. There have been at least 10 £1 billion+ transactions in 2023, exceeding the previous record of nine in 2019 and double the number in 2022. This trend of more large deals looks set to continue into 2024, with insurers reporting record numbers of large schemes in their pipelines."

It is not only the number of transactions that has shifted, says WTW managing director of transactions, Shelly Beard, but also the individual size of those transfers. "Five or six years ago," she says, "the transactions were mostly pensions buy-ins. You might have gotten £300 million, which would have covered about 60 per cent of a scheme. And volumes were somewhere between £25 billion and £30 billion a year."

The environment has been febrile and is aptly summed up by Just director of commercial, Rob Mechem.

He says: "What we've seen over the past two to three years is that as interest rates have risen, funding has improved to a point where many schemes no longer need contributions and are now in a fully funded position, meaning that they can transact quite quickly. And from the perspective of the insurers, there's more appetite and ability to source assets on their side. So we have a situation where supply and demand are working well together, and circumstances in which one is not outstripping the other."

The Truss budget

Many of those spoken to by *Pensions Age* put much of the onus for the improved funding position and the resulting acceleration in buyouts on the Budget put forward by then-Prime Minister, Liz Truss, in September 2022.

"The rise in yields throughout 2022 and beyond," says XPS head of risk settlement, Stephen Purves, "really helped the majority of funds move closer to their eventual target. That really focused the minds of trustees and sponsors, and it means that the endgame for a scheme went from being 10 years into the future to now just being a couple of years away."

Many UK schemes are now carrying heavy surpluses. In May, the Pension Protection Fund said that this had increased between March and April from £455.5 billion to £458.3 billion. At the same time, UK DB schemes were holding assets of £1.398 trillion against liabilities of £939.7 billion. Meanwhile, the funding ratio for the 5,050 DB schemes in the index increased from 146.5 per cent at the end of March 2024 to 148.8 per cent in April. It was also reported that 4,545 schemes were in surplus, compared to 505 in deficit – an overwhelming ratio.

There is also little risk of deceleration, says Purves, citing the fall in the cost of annuities from the rise in interest rates. Those schemes that have not yet gone for buyout, he says, will still be looking to de-risk their assets so they can be positioned for a future transaction.

"Lots of them," he adds, "will have come out of equities and gone into something like corporate bonds and gilts, which will lock them into that position. If the scheme has been sensible, it will have locked into the upside and de-risked, putting them in place for a buyout."

There seems also to be little constraint in capacity. Pricing has reportedly been good and while there have been fewer insurers placing bids, those bids have remained strong. Against that backdrop, two – and, possibly, three – insurers are also set to enter the market this year.

"The insurers have been seeing it come for a long time," says Legal & General Retirement institutional head of execution and origination of UK PRT, Dominic Moret, "and they've been scaling up their teams in preparation. So that, along with the new entrants, means that we don't see any capital constraints in the market – any scheme that is looking to transact will be able to transact."

There are challenges, however, on the administrative side. This is the view of Mechem, who says that while there is no issue with the insurers coming to market, the work involved in a transfer means there is often a deficit of skills and knowledge to make this occur at the same pace as before.

Mechem adds: "Having the capacity to get to that place with the data and the administration is where we are seeing some challenges. It used to take 12 months to complete some transactions, but they are now at 18 months. And the stuff that used to take 18 months has now stretched out into two years."

"We have a situation where supply and demand are working well together, and circumstances in which one is not outstripping the other"

It may also be that some smaller schemes may find themselves squeezed amongst the larger players, says Beard. She says that the beginning of the year saw no constraints and heavy engagement, but she has since observed greater selection in the past two months from insurers.

"That," she says, "has affected the smaller end of the market because the amount of work being done is not that dissimilar between smaller and larger schemes. It just happens that the prize and profits are bigger with the larger schemes, so the smaller ones get a little crowded out."

Preparing for buyout

There is a mnemonic, says LGIM head of endgame solutions, Mat Webb, for schemes looking to prepare themselves for buyout: ABADGE. It stands for, he says, Affordability, Benefits, Assets, Data, Governance, and Engagement.

"That," he says, "is what we tell schemes."

Perhaps the three most-important aspects amongst them are data, governance, and assets.

Webb says: "When it comes to data, we work with administrators to provide clear, checked, and verified data that we know is reliable without any unnecessary risks. For governance, we look for schemes that have clear processes in place that the trustees have discussed with the sponsors, along with a clear process for making decisions. And we, when it comes to assets, ask schemes to work with investment managers to understand what might be attractive to insurers, and we can then help design portfolios that are more efficient for the transfer process."

PIC co-head of origination, Tom Seecharan, adds one more thing to the mix.

"You also need to think about what you want from the process," he says. "Price is important, but there are different commercial points that are important to schemes. So it's worth talking to stakeholders and making sure that they're all on the same page. If they're not, you don't want to find this out at the last minute."

While the market is a heightened, heated state, it might be easy to assume that executive a pension transfer is easy. But the important thing to remember, says Purves, is that it is a process that is not completed in a week.

"It can take months," he says, "and it's similar to buying a house when it comes to effort and negotiation. There are lots of things that can prevent the transaction from going ahead. You need to keep continually monitoring and keep the champagne on ice until everything is signed and sealed."

Written by Pete Carvill, a freelance journalist

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