Reflecting on 2024: Key trends that shaped the BPA market

Joe Haswell, BPA transaction manager at Standard Life, part of Phoenix Group, shares his views and discusses trends he observed in bulk purchase annuity origination over 2024

Relative to some lofty predictions at the start of the year, the consensus expectation that around £45 billion of bulk purchase annuities (BPAs) will be written in 2024 sounds pedestrian. For the first quarter of 2024 the pace did feel more like a stroll than a sprint, with the trickle of medium and large transactions (£100 million-plus) attracting near-full insurer participation, which has been uncommon over the past couple of years. The trickle became a flood with spring's arrival; thereafter, the market has been busy and closing in on near record volumes.

Are schemes trying to time the market for a better price?

The market for medium and large transactions feels back-end loaded each year, and looking at transaction volumes that is historically true. I reviewed our records since 2020 and filtering for schemes over £100 million in size that are targeting same-year execution, the number of request for quotes received in Q1 has remained broadly stable, while those received after has gradually increased by half over time. It confirms what I thought, requests ramp up around the start of summer, most often from schemes looking to sign in early winter.

It's hard to tell if this is by design, chance or a natural result of governance cycles; there's certainly a view among some that waiting can lead to better pricing as insurers compete to meet annual targets towards the end of the year. I'm sceptical of that, particularly for small and medium schemes, as insurers have limited human capital. Schemes may find that they receive fewer quotes than if they had approached the market earlier in the year. Nonetheless, both the large and small transactions we participated in from Q2 onwards have attracted multiple quotes, helped by consultancies and insurers remaining flexible and adapting to the most suitable timetables.

The market has coped well with high demand from small schemes

A key trend for 2024 has been the sheer number of bulk annuity policies written. The six months to June saw the greatest number of deals completed in any half-year, which is despite the general trend for greater second-half volumes. While volumes might fall short of record levels, I expect the number of transactions to comfortably set a record this year. This has been driven by schemes under £100 million approaching the market and finding it better serviced than ever before, with four established providers quoting regularly on small schemes and new entrants looking to find their feet in this segment of the market. I expect this trend for a greater number of smaller trades to continue into 2025 and beyond: out of the c.5,000 total universe of UK DB schemes, roughly two-thirds of pension schemes are under £100 million in size. However, transacting and subsequently transitioning buy-in policies to individual policies is time consuming regardless of size, so increasing numbers of smaller transactions will need to be accompanied by continuous investment from insurers into their pricing and onboarding processes.

Insurers are increasing operational capacity, but there's no golden bullet (yet)

Human capital remains one of the key constraining factors for the risk transfer market. Specifically for transactions, it means insurers cannot quote on every opportunity and need to be selective. The straightforward approach to increasing capacity is growing the team, and we have done this in 2024 by hiring across the full spectrum, from experienced hires to school-leavers. We have also focused heavily on using technology to improve team efficiency, by building a team whose main focus is on improving our platforms and processes within bulk annuity pricing.

Generative AI has been touted as a technology with the potential to revolutionise how we prepare quotes and cleanse data. In the medium and long term, I think this is true. However, I've yet to see an off-the-shelf product for BPA quotations. There would need to be – amongst other things - strong controls to protect confidential and restricted data before any is implemented, so it might be some time until it's possible to feed raw data and benefits in and get a premium out. For me at least that's a good thing; my house keeps finding new ways to leak, so I need the work. In the short term, there could be some quick wins for efficiency from generative AI, such as finding information from simple databases, summarising information and for drafting written communication (not for this article, but I did try it).

Schemes are better prepared

Schemes and their advisers can also do their part in increasing capacity for writing new business, by coming to market well-prepared and with clear objectives. Over 2024 the trend of schemes being better prepared has continued from previous years, particularly at the smaller end with respect to data and benefits.

Schemes are also increasingly coming to us with a solution for illiquid asset holdings already decided and in progress, or alternatives available to assess the value of insurer solutions against. Time has passed since the rapid increases in funding levels seen over 2022 and into 2023, which saw some schemes reach buyout affordability sooner than expected and subsequently transacting quickly to take advantage of this. Funding levels have been relatively stable since, and schemes that have taken more time to come to market have had time to explore solutions outside of the BPA process. Moreover, the industry's collective experience on dealing with illiquid assets has improved, meaning advisers and insurers can offer a wider range of solutions.

Full-scheme transactions dominate

Partial scheme buy-ins, where schemes insure only a portion of their membership, dominated our pipeline five years ago. Like 2023, partial buy-ins remained in the minority this year and are often reserved for the very largest of schemes which are insuring liabilities in (still very large) chunks. When the occasional pensioner-only buy-in is discussed at the triage meeting, the room becomes very nostalgic! No doubt improved scheme funding positions have meant a series of partial buy-ins is no longer required, but the narrowing pricing differential between pensioner and deferred members will have played a part too.

With full scheme buy-ins, the timeframe for the scheme to transition to individual policies is typically shorter and the moment that scheme members will become individual policy holders is more tangible. Coupled with more schemes expecting to retain a surplus after buying out, trustees and their advisers are putting ever greater importance on member experience when choosing an insurer.

If full scheme buy-ins are good, why not do a double?

Another notable theme in 2024 was for separate schemes which share a sponsor, or whose sponsors have some corporate relationship, approaching the market as a single process. This has been a favoured approach for some time, in order to bring a larger total transaction size to the market as a single process with the aim of driving greater insurer interest. This year, it has been more common and with more distantly related schemes. I expect setting up efficient governance processes under this approach takes some patience, but they are effective and take only marginally more time than a single policy to execute.

Looking forward

Typically, January would see a lull of activity, but we are already working on a number of proposals due promptly in the new year, so I'm expecting the pace to start quickly next year. In my view the market can comfortably support record volumes of £50 billion-plus, but for these to be hit we would need to see a return of more £2 billion-plus transactions, which were relatively uncommon in 2024. Even at record volumes, I am expecting pricing to remain highly competitive, and I will be interested to see whether the recent (re)entrants affect that as they look to build a market share.

But for now, as we get to the end of the year, I hope everyone in the market gets some time to wind down and pursue other interests. Personally, I will be experimenting with some market-timing of my own, waiting until the right moment to buy large numbers of tulip bulbs for a pittance.

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