Beat the triage

How to get your scheme prioritised in insurer triage processes over 2023 and beyond

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Ruth Ward
Principal
LCP de-risking team

How can schemes beat the triage over 2023 and beyond?

What is the challenge?

Mention triage and it traditionally conjures up visions of doctors prioritising emergencies in a hospital, but in 2023 triage processes will also be front and centre in the bulk annuity market. In a bulk annuity context, as in the third definition below, a triage refers to the process where insurers rank quotation requests received from pension schemes and decide which to provide pricing and terms for. As our October 2022 report illustrated, demand for bulk annuities is set to sky rocket over 2023-2025 and so schemes will need to work hard to make themselves attractive and "beat the triage", thereby securing capacity from insurer pricing and new business teams to provide a quote.

triage *noun*
(tri·age, ˈtrē-ˌäzh)
1. a: the sorting of and allocation of treatment to patients and especially battle and disaster victims according to a system of priorities designed to maximise the number of survivors

1. b: the sorting of patients (as in an emergency room) according to the urgency of their need for care

2: the assigning of priority order to projects on the basis of where funds and other resources can be best used, are most needed, or are most likely to achieve success

Source: Merriam Webster dictionary

What really matters to the insurers?

In the words of Atticus Finch from Harper Lee's immortal To Kill a Mockingbird, "You never really understand a person until you consider things from his point of view . . . until you climb into his skin and walk around in it." So put yourself in an insurer's skin – which questions would you ask in order to rank requests for buy-in/buy-out quotations in terms of importance to your team/business and how would you decide which deals to prioritise? In our experience, helping our clients score well against the following insurer triage questions is top of the list:

1. **How likely is this buy-in to transact?** The opportunity cost to an insurer of prioritising the wrong transactions to quote on is enormous, not to mention the actual costs insurers incur every time they provide a quotation (easily as much as a small family car) – so insurers will try to aggressively screen out deals that won't efficiently proceed and are likely to be an unnecessary drain on their resources.

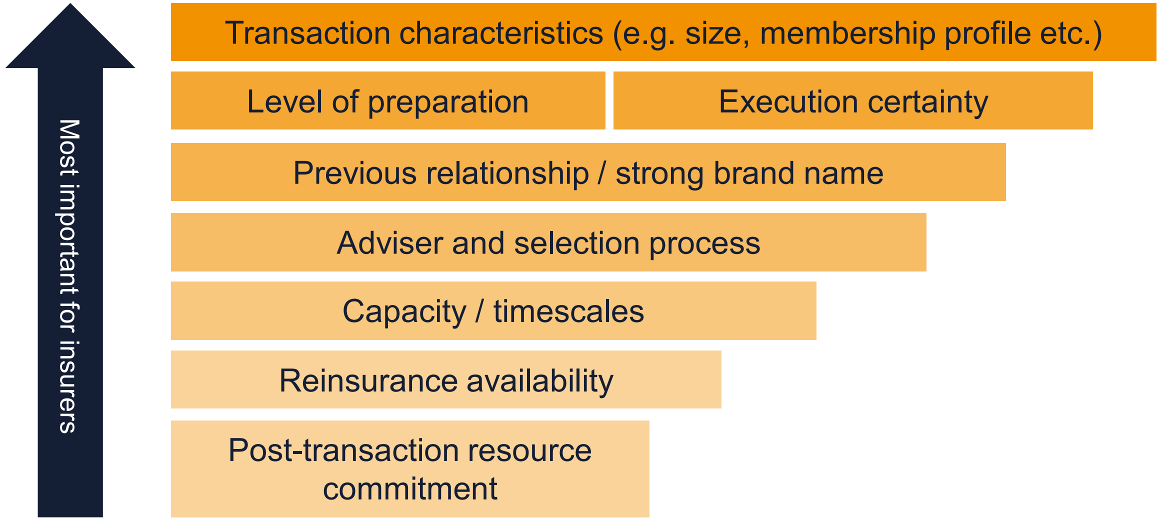
2. **How likely am I to win this deal?** Insurers will have a natural preference for safer bets, e.g. where they believe their available assets/reinsurance terms suit the scheme profile/give them a pricing advantage, but they may be willing to take more risk on a number of larger deals that could make (or break) their year.

3. **How much work will this deal involve?** Insurers need to weigh up a deal's resourcing requirements, both pre- and post-transaction, against the above factors. Keeping the required effort within acceptable limits is important if they are to meet their aspirations on business volumes and the market's high level of demand.

In practice, every case is different but our role as an adviser is to help schemes prepare in the best way and maximise their engagement with insurers. Even your process design and governance, and how LCP engages with insurers with you and on your behalf, can all help to get a positive triage decision. It's important for you to focus on the highest impact factors when preparing your scheme for market. With the right preparation and presentation, you should and will get insurer participation, even in a busy marketplace.

What do the insurers say?

In late 2022, we surveyed the eight insurers active in the bulk annuity market on what was most important to them when triaging new transaction opportunities. We have summarised their responses below, with the most important factors nearest the top.



It's worth noting that execution certainty is right up there as one of the most important factors, but the insurer selection process and identity of the specialist de-risking adviser are not much further down. So how do you go about demonstrating that you've got these and the other factors covered?

How can schemes beat the triage over 2023 and beyond?

Preparation – or more precisely focused preparation – is key…

There's clearly a lot to think about, so how do you put your best foot forward when approaching the market?

What does a well-prepared scheme look like?

We've used our experience of advising over 200 deals worth £60bn since 2014, to come up with some practical hints and tips to help you:

+ understand real-life examples of how you can influence the factors insurers care about, and how these link to our three original insurer triage questions

+ prepare your scheme thoroughly for market

+ present the best business case for an insurer to quote for your scheme.

Take me to hints and tips

As you'll see, there's a lot more involved than having good data!

Larger transactions will sometimes have more flexibility with insurers on how they have prepared (particularly if there are wider business reasons for a scheme approaching market early) but, in general, schemes will need to do their homework before approaching the market and then execute a clear, simple and efficient transaction plan. Even on the largest transactions (we are talking £5bn+), the insurers will be selective – for an insurer, a transaction of this size is a lot of eggs in one basket, meaning their new business targets risk being missed if they aren't successful, and not all insurers can be successful.

With the right preparation and process in place, we anticipate helping a record number of schemes achieve their de-risking goals this year. Our priority is that our clients aren't part of the growing number of schemes that miss out – our recent insurer survey showed that last year some insurers were already declining two out of three deals. We're doing well against this so far, with a firm objective of making sure our clients are far away from Benjamin Franklin's adage of "By failing to prepare, you are preparing to fail".

What preparation do insurers suggest schemes prioritise?

Click here to see the results of our insurer survey.

What is the capacity side of the equation?

From our work with insurers, we estimate that insurer target appetite currently stands at around £45bn pa, based on current yields, compared to expected scheme demand of £45bn - £60bn for 2023. This will place significant pressure on insurers to triage effectively, with the outcome of the triage process being calibrated by individual insurers based on how quickly schemes come to market and how long it takes insurers to flex up their pricing capacity.

In summary

To get insurers' attention, schemes must be well-prepared on all fronts. This goes well beyond having good data and should include:

- ✓ Demonstrating firm sponsor engagement and realistic expectations of insurer pricing and any anticipated buy-in shortfall/contribution
- ✓ Working with experienced specialist de-risking advisers, who run smooth, efficient and fair processes, with streamlining for smaller deals
- ✓ Establishing a robust governance structure with a clear decision-making framework (for assessing the value offered by the pricing and the wider package of commercial terms)
- ✓ Having prepared well in terms of data, benefits and asset strategy
- ✓ Setting out a well-considered deal structure and limiting complex requests where possible.

As a lead de-risking adviser, working in an independent specialist capacity on over 50% of our transactions, our first priority on a new project is to understand (and, where necessary, align) key stakeholder views and preferences, the current level of preparedness and the most important pre-transaction areas of focus. We then use our significant experience and deep insurer knowledge to agree a strategy for bringing a scheme to market in the right manner and at the right time.

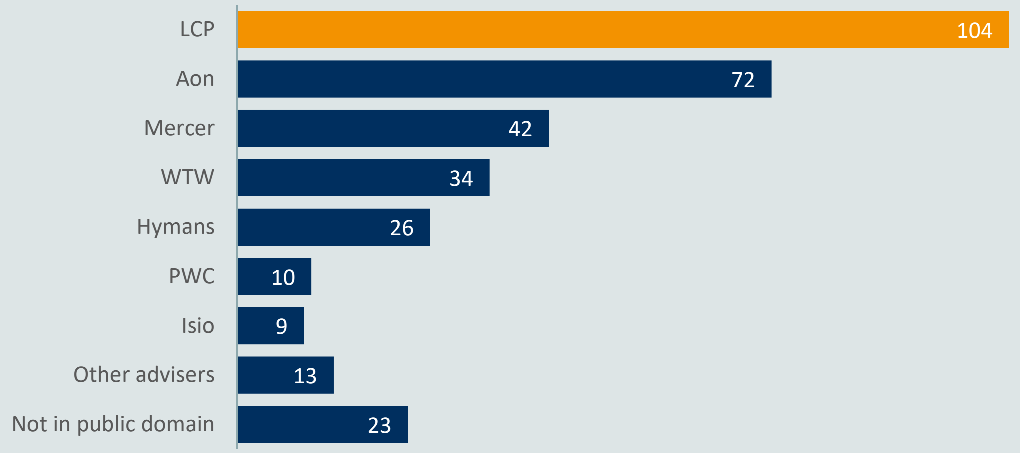
Ultimately, it's about helping you beat the triage and achieve your scheme's specific goals.

LCP is a market-leader in all segments of the buy-in and buy-out market

Over £500m: Lead adviser on buy-ins/outs over £500m since 2014

Source: Insurance company data up to 30 June 2022 (we will update these following end-March 2023, once all insurers have released their 2022 full year results). Data excludes L&G Assured Payment Product (APP) transactions.

Over £100m: Lead adviser on buy-ins/outs over £100m since 2014



Source: Insurance company data up to 30 June 2022 (we will update these following end-March 2023, once all insurers have released their 2022 full year results). Data excludes L&G Assured Payment Product (APP) transactions.

Under £100m: Lead adviser on buy-ins/outs under 100m since 2014

Insurance company data shows that LCP has been the lead adviser on **30% of all buy-ins and buy-outs under £100m** between 2014 and 30 June 2022*. It's not possible to produce adviser comparisons like the above for smaller transactions as insurers do not publish granular data on lead adviser for transactions under £100m.

LCP has now completed 67 transactions through our streamlined buy-in and buy-out service for smaller schemes, bringing the total liabilities insured through this service to over £2.5bn.

**We will update this following end-March 2023, once all insurers have released their 2022 full year results.*

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Contact us

If you would like more information please contact your usual LCP adviser or one of our specialists below.

Charlie Finch
Partner
+44 (0)20 7432 0625
charlie.finch@lcp.uk.com

Ruth Ward
Principal
+44 (0)20 3824 7436
ruth.ward@lcp.uk.com

Clive Wellsteed
Partner, Head of Practice
+44 (0)20 7432 6651
clive.wellsteed@lcp.uk.com

At LCP, our experts help to power possibility by navigating you through complexity to make decisions that matter to your business and to our wider society. We are powered by our desire to solve important problems to create a brighter future. We have market leading capabilities across pensions and financial services, energy, health and analytics.

Lane Clark & Peacock LLP
London, UK
Tel: +44 (0)20 7439 2266

Lane Clark & Peacock LLP
Winchester, UK
Tel: +44 (0)1962 870060

Lane Clark & Peacock Ireland Limited
Dublin, Ireland
Tel: +353 (0)1 614 43 93