

## Deal of the year **BT longevity swap**; Reinsurer of the year **Prudential Financial**

**BT'S LONGEVITY REINSURANCE** transaction with Prudential Financial earlier this year was a defining moment for a market that has been waiting a long time to fulfil its promise.

At £16 billion, the size of the deal matched the total volume of longevity risk activity in 2013 and was double that of the UK over the same period. As one of the biggest pension schemes in the world, and one of the most sophisticated in its approach to risk management, BT's decision to de-risk sends a message to other corporates about what is best practice for scheme management.

"Around the world, companies' pension plans are getting in the way of their business plans, and leading firms are now turning to pension risk transfer solutions," says Phil Waldeck, senior vice-president and head of pension and structured solutions at Prudential.

The transaction covers the longevity risk for about a quarter of total liabilities of the British Telecom Pension Scheme, with Prudential acting as the sole reinsurer. To enable the company to transact directly with a reinsurer, BT set up a wholly owned captive insurance vehicle in Guernsey that traded with the scheme on one side and Prudential as reinsurer on the other.

By dealing with a reinsurer without a bank or insurer as intermediary, BT was able to save on transaction fees and gained access to a wider group of possible counterparties. It is an approach similar to that taken by Aviva for a £5 billion longevity swap earlier in the year, but BT is the first non-financial institution to execute a deal this way.

"By creating its own insurance company to facilitate the transaction, the BT pension scheme gained wider access to the global reinsurance markets and achieved the best value for the scheme," says Amy Kessler, senior vice-president and head of longevity risk transfer at Prudential.

The BT deal shows the scale of transaction that is possible and also raises the possibility that banks or insurers might set up vehicles through which schemes could reach reinsurance buyers directly. By eliminating counterparty risk for the intermediary, this so-called pass-through structure could be cheaper for clients. The bank or insurer would operate in an advisory and administrative role.

"The BT Pension Scheme transaction provides a clear and proven path for the largest defined-benefit pension plans in the world to manage longevity risk," says Kessler. "This structure can be replicated by large



*The BT and Prudential teams proudly show off their awards*

pension funds in the UK, US, Canada, the Netherlands and elsewhere."

"It proves that a large sophisticated fund can manage a sleeve of its risk using the best practices of liability-driven investment for the assets and longevity protection for the liabilities. Fundamentally, if your goal is to immunise that liability or immunise a part of that liability against risk, this is clearly the way forward. But no one had proven before that you could do it at scale."

Ian Aley, a London-based senior consultant at Towers Watson, who advised on the BT scheme, said at the time of the transaction: "The BT deal could point to more of the same type of deals on a big scale, or to transactions for schemes on a smaller scale using off-the-shelf structures. That is now a live option."

Other parties on the deal included Aon Hewitt, which advised BT PLC on the swap.

### Reinsurer of the year

Prudential is bullish about the prospects of the global longevity transfer market and has transacted four longevity deals already this year, including the transaction with the BT Pension Scheme. The company uses its US-based life insurance carriers to write reinsurance covering non-US liabilities. Prudential used the same US-based life insurance carriers for its US pension risk transfer agreements with General Motors (\$26 billion) and Verizon (\$7.5 billion) in 2012 and, more recently, Bristol-Myers Squibb and Motorola.

"When we think about the inexorable drive to de-risk pension funds – if we see only 5–10% of pension funds transact over the coming five to 10 years, that is another \$250 billion–500 billion in the market, over and above the \$200 billion transacted since 2007. This is a quickly growing segment of the market and reflects an important secular trend," says Kessler.

Prudential's reinsurance business is focused on supporting the global pension de-risking trend. The firm says it sees market opportunities emerging in Australia, Canada, France, the Netherlands and other markets where the reinsurance community will be a crucial partner in creating market depth. Prudential wins our reinsurer of the year award for its work supporting this important growth area for the pensions industry. 