

SURGE OF INTEREST IN GUERNSEY FOR PENSION LONGEVITY RISK TRANSFER DEALS

19 APRIL 2021

Guernsey has seen a surge of pension longevity risk transfer deals over the past 18 months which have continued through Covid-19 uncertainty.

In the last five years, a number of pension schemes of well-known companies have completed transactions, together worth in excess of £30 billion, through captive insurers based in Guernsey.

Three deals were conducted in 2020, with a combined scheme value of more than £8 billion, representing a bumper year in the longevity space for Guernsey, with more transactions in the pipeline. All solutions offered through Guernsey use an incorporated cell of a Guernsey incorporated cell company.

Kate Storey, Partner at law firm Walkers and Chair of the Guernsey industry pensions de-risking group, said: "Guernsey is the market leading jurisdiction globally for captive solutions to hedge pension schemes' longevity risk, having been host to substantially more transactions of this type than any other jurisdiction and with an established track record dating back to the first deal in 2014."

Pension funds with defined benefit schemes are exposed to longevity risk – the risk that their pensioners live longer than predicted. One year of additional life expectancy can add 5% to pension fund total liabilities.

One solution for pension funds is to purchase a bulk annuity, but they might not always be available at favourable terms, and some are now establishing their own captive insurance company to insure the fund's longevity exposure and reinsure 100% of that risk into the life reinsurance market, where pricing may be lower.

A captive solution can also be a stepping stone towards purchasing a bulk annuity at a later date, and this has happened with some Guernsey deals.

"The first deal we saw completed through Guernsey is still the biggest, for British Telecom in 2014 at a value of £16 billion," said Guernsey lawyer Christopher Anderson, Partner at Carey Olsen, the law firm which has advised on all the completed deals so far.

"This certainly opened eyes to the possibilities of pension longevity risk transfer in this way. It's fair to say the market just ticked over for the next few years, but we have seen a lot of activity in the past 18 months with plenty more discussions in the pipeline.

"Guernsey has a lot to offer this specific market, from our highly-regarded regulatory regime through to our long history in cell company and captive insurance innovation, which has in turn created a centre of excellence for handling these types of complex transactions."

Guernsey will highlight its offering in this area at the upcoming Westminster and City 18th Annual Conference on Bulk Annuities from 28-29 April. This year's theme is 'Sustaining Momentum in Volatile Times', and a Guernsey delegation will be present at the online event to discuss solutions and services on offer in the island. For more information, visit our event website: <https://www.weareguernsey.com/finance-events/2021/the-18th-annual-conference-on-bulk-annuities/>.

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PO Box 655, St Peter Port,
Guernsey, GY1 3PN

+44 (0)1481 720071

INFO@WEAREGUERNSEY.COM

