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Buy-outs – An Irish Perspective

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Irish buy-out market

- Very limited to date relative to UK
- Why?
 - Some thoughts of mine
 - But more interested in your views!



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Current market size

- Total annuity sales in 2006 of €270m
 - 2007 figures not published yet
 - But understand is c. €100m higher
- Survey responses on the 2006 sales suggested c. 20% were “bulk” sales
 - 2007 proportion likely to be higher
- Suggests total bulk sales of perhaps €100m in 2007



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Limited to date – why?

- Could be either
 - “Supply-side” factors
 - “Demand-side” factors
- Consider these on following slides



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Supply-side factors

- Providers
 - (Some) Irish life offices; Others?
- Risk appetite
 - Longevity risk; reinsurance is vital
- Assets
 - Euro-zone bonds; Irish CPI?
- Capital
 - Availability & adequate return



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Survey of providers (1)

- *“Please indicate your view on the capacity of the annuity market to absorb the buyout of a large portfolio of pensions”*
 - 4 said “Significant Capacity”
 - 1 said “Limited Capacity”
 - 0 said “No Capacity”



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Survey of providers (2)

- Survey responses indicated that c. 20% of all annuity business was “bulk”
- Questions re constraints on future ability to write bulk-business:
 - Availability of reinsurance
 - Alternative demands on capital
 - Index-linked bonds
- Answers indicated no real issues



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Demand-side factors

- Cost
 - Pension scheme perceptions versus life office perceptions
- Others?
 - Small scheme sizes
 - Relatively immature schemes
 - No external pressures



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Annuity pricing (1)

- Our analysis of the Irish market (2007) found:
 - Individual annuity prices c. 18% higher than a DB scheme's assessment of pensioner liability
 - Made up of cost of capital, mortality, expenses and contingency margin
- Would expect narrower margin for bulk prices (mortality & expenses)



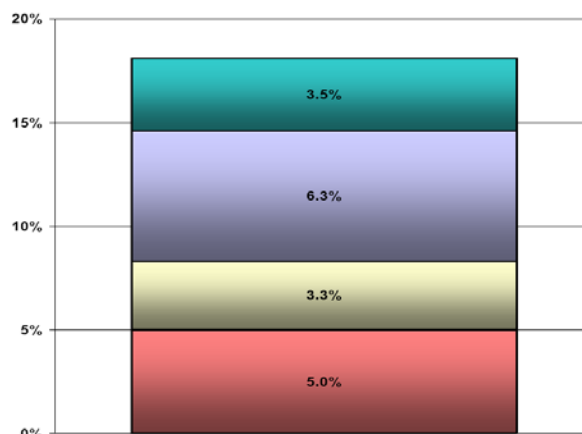
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Annuity Pricing (2)

- Add margin for risk/profit
- Include allowance for cost of holding regulatory capital
- Include allowance for commission and expenses
- Move to assumed annuitant mortality



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Future developments?

- What would cause the Irish buy-out market to develop along similar lines to the UK?
 - Greater awareness/acceptance of buy-out strategies
 - External impetus (e.g. legislative/regulatory change)

