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Innovator turns to the market for longevity risk

FACE TO FACE

Steve Johnson talks to the chairman of Pension Corp, one of the first to exploit the pension buyout market

It should come as little surprise that Sir Mark Weinberg is an expert on longevity. The chairman of Pension Corporation, among other things, Sir Mark is still beavering away enthusiastically at the age of 77.

"I find this very stimulating: it's working with some very bright people. If you retire you die soon afterwards," he says, offering his own idiosyncratic take on the nature of longevity.

Pension Corp has led a chameleon's life in its two years of existence, as well as stirring up its fair share of controversy, and is once again reinventing itself.

Edmund Truell, erstwhile chief executive of the private equity house Duke Street Capital, launched Pension Corp to challenge the long-standing duopoly of the life assurers Legal & General and Prudential in the UK pension buy-out market, where the assets and liabilities of closed defined benefit pension schemes



Pension Corporation

Founded: October 2006 with the incorporation of Pension Insurance Corporation

Pension assets under stewardship: £4.8bn (€6bn, \$9.3bn)

Committed capital: £1bn (May 2008)

Investors include: Royal Bank of Scotland, HBOS, Swiss Re and a number of other institutions

are converted into a series of individual annuity contracts.

Unfortunately, a litany of life assurance luminaries had the same idea at the same time, erasing the attractive margins Pension Corp had been eyeing up.

While continuing to bid for, and lose, these traditional bulk annuity deals, Pension Corp devised a new strategy: that of buying up companies to get at their pension assets, leveraging Mr Truell's private equity expertise.

In 2007, deals were struck for the pension schemes of Thorn and Thresher, as well as Telent, the rump of the former Marconi

engineering empire. This approach was potentially more lucrative: by eschewing the insured buy-out route Pension Corp did not have to maintain the solvency capital required of an insurer. With Citigroup following Pension Corp's lead, and other institutions signalling their desire to follow suit, the phrase "regulatory arbitrage" sprang to the lips of observers.

But the £400m (€505m, \$780m) Telent deal in particular caused a stink: trustees, unions and, most importantly, the pensions regulator were not amused. In November, the regulator

appointed its own independent trustees to protect scheme members and the £500m sitting in an escrow account to cover possible scheme shortfalls.

More significantly, the UK government has now given the regulator increased powers to demand higher contributions from "organisations connected or associated with the employer", if it judges members' benefits at risk.

In retrospect Sir Mark, an industry veteran who has founded three life assurance companies in his time, admits to errors in the way Pension

Corp handled the Telent deal. "We made a mistake: we didn't go and speak to the regulator. With hindsight we absolutely should have done. The regulator slapped an order on us and I suppose it indirectly resulted in the changes in pension law."

The regulatory clampdown is widely seen as sounding the death knell for the non-insured buy-out model. One rival, Aleva, threw in the towel following the government ruling.

Sir Mark agrees it may be the death knell, but in a slightly different sense. "The real obstacle for us is the determination of the regulator that we, as the buyer, should not be able to get deeply involved in the investment management of the scheme," he says.

"Under the trustee model the trustees control the assets. If they get it wrong the company writes out a cheque without having any influence. That is a real, fundamental issue that has started to surface."

It is this lack of ability of a corporate acquirer to implement an asset liability management strategy - on the insured side of its business Pension Corp typically shifts schemes out of equities and neutralises inflation and interest rate risk - that is the primary deterrent,

according to Sir Mark.

"We have not been actively pursuing corporate deals. We will only do them in the future where there are special circumstances, including where a pension fund wants us to help them with investment management."

Instead Pension Corp has reverted to plan A and started winning traditional bulk annuity business. In June it took over the running of the £72m scheme of the property developer Swan Hill and the £451m fund of Delta, a metals company.

Sir Mark lauds the value of both deals to the sponsors, pointing out that Delta's share price rose on the deal, despite its additional payment of £49.7m, as "the market recognised that they were getting rid of a risk that added volatility to the earnings". For Swan Hill, offloading the pension scheme allowed it to separate its UK and Russian businesses.

He claims that demand for such deals has "shot up", with Pension Corp being asked to quote on £125bn of deals. This increased demand for insured buy-outs has also pushed up prices which, having fallen from a typical 130 per cent of FRS 17 liabilities to 110 per cent as new entrants flooded the market, has

Curriculum Vitae

Sir Mark Weinberg

Born: 1931

1961: Founder, Abbey Life Assurance Company

1971: Founder, Hambro Life Assurance (subsequently called Allied Dunbar)

1971: Managing director, Hambro Life Assurance

1984-1990: Chairman, Allied Dunbar and director of BAT

1985-1990: Deputy chairman of Securities and Investment Board

1991: Founder, St James's Place with Lord Rothschild and Mike Wilson

1991: Chairman (until 2005) and now president, St James's Place

2006: Chairman, Pension Corporation

2006: Executive chairman Synergy Insurance Services

stabilised nearer 120 per cent, Sir Mark says.

And, not content with finally getting some insured business under its belt, Pension Corp is reinventing itself once again, this time as a provider of longevity insurance, whereby pension funds pay fixed annual premiums and in return are reimbursed for future costs arising from higher than expected longevity. "We have started talking to really big companies about insuring away all or part of their longevity risk," says Sir Mark. "These are enquiries rather than clear quotes but no one else is looking at this field. If you are a big FTSE 100 company the one big risk you

have got is longevity."

Sir Mark stresses Pension Corp's expertise in this field, with John Coomber and John Fitzpatrick, formerly chief executive and chief financial officer respectively of Swiss Re, among his colleagues. And he is confident that a market in longevity risk is about to emerge, with hedge funds keen to trade the nascent asset class

"We insure longevity and then we lay off the risk with reinsurers, and ultimately investors take it. We are discovering that there is a market for longevity. We think there is going to be tremendous activity," he enthuses, warming to his task anew.