

With PRT Rapidly Evolving, Insurers Must Remember Priority No. 1

Brookfield Wealth Solutions' managing partner lays out how insurers can best serve the participant accounts acquired in pension risk transfers.

With the continued growth in pension risk transfer transactions on both sides of the Atlantic Ocean, those entrusted with safeguarding workers' savings plans would do well to remember that for all the advantages risk transfer can bring, the overriding aim of any such deal should always be to protect retirees.

This point is likely to come into sharper focus over the coming years if current growth projections for the PRT industry prove anywhere near accurate; industry observers at firms such as J.P. Morgan and Aon have predicted "a long runway" ahead. The U.K. represents the largest PRT market in the world, with more than 500 billion pounds (\$668 billion) expected to come to market in the next decade. If the U.S. PRT market continues its recent momentum, it could represent another \$300 billion to \$500 billion over the next 10 years".

The Time Is Right

It is not difficult to see why PRT transactions are becoming more appealing to employers. Companies are seeking to avoid the trifecta of investment risk, longevity risk and operational risk. They prefer, instead, to focus on their core business and are opting to leave managing the pension to a third-party provider whose focus is managing pension plans. Meanwhile, robust economic fundamentals allow for this de-risking to occur against the backdrop of a positive macroeconomic environment.

The strong performance of equity markets has improved the funded states of defined benefit plans, making it easier for corporations to transact on what are no longer under-funded retirement plans. In addition, the rise in interest rates over the

past three years has lowered pension liabilities, making transactions more financially attractive.

From an insurer's perspective, PRT can be an attractive business segment. Fundamentally, these liabilities tend to be more predictable; unlike other segments of the annuity market, pension plans have less variability in terms of policyholder elections and benefits. While longevity remains a key risk (of increasing importance in the current environment), a robust reinsurance market exists to mitigate these risks.

Keys to Success

Given the duration of PRT liabilities, investment expertise is paramount. Many insurers have struggled to match these liabilities with high-quality assets that generate attractive risk-adjusted yields. We believe an insurer's access to long-duration invested assets is a critical differentiator to success in PRT transactions

Another differentiator is access to funding. Many PRT transactions are large, of a long duration and require intensive amounts of capital. Plan sponsors must be careful to work with insurers that not only have capital today, but also are not overly reliant on outside investors or the public markets in times of uncertainty.

As the PRT market develops, we expect to see transactions become more complex or involve elements that heighten execution risk. Such complexity and risk could manifest in various forms, whether through acquirers taking on plans with retirees in territories with less well-developed pension rules, or through acquirers working with plans that have not properly

maintained their participant data, making it harder to ensure participants receive their entitled benefits. Operational expertise is a clear differentiating factor in how well an insurance company can care for policyholders, and companies with a multinational platform are best positioned to execute PRTs across multiple geographies.

Increased complexity is inevitable in a market that has grown so rapidly and is no longer a niche corner of the finance industry. It is a sign of maturity: As market participants become more comfortable with the nuances of these transactions, they become more confident in handling deals that they may have previously consciously avoided. Insurers with robust private market capabilities and a sincere dedication to policyholders will no doubt be able to navigate this and will reap the rewards of increased competition and innovation.

Whose Needs Come First?

But we need to make sure this does not come at the expense of the retirees at the heart of this growing industry. Fundamentally, running a pension plan is about delivering on promises—sometimes those made many years earlier—and looking after participants as you would expect someone to take care of your own parents or grandparents.

This is especially important, given that many PRT providers work with a third-party administrator to help manage plans they acquire. Devoting resources to protect and enhance customer relationships through the life of the plan is paramount. For example, we at Brookfield Wealth Solutions have added or customized security features to make our accounts more accessible and efficient for participants. We regularly monitor interactions between our TPA and plan members to ensure our high service standards are met. We also continuously assess reporting metrics and frequently dialogue with our TPA partner to track any emerging trends or service needs with our clients.

The firms that can succeed in the PRT market while also making sure that plan members continue to receive all the benefits to which they are entitled will prove themselves worthy of the increased responsibility they are taking on.



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