

# A day in the life of a pension fund buyout actuary

David Collinson explains one of the main challenges facing actuaries working in the pensions buyout market.

## What are your current responsibilities?

My current responsibilities include sales and marketing, product development, and pricing. We have a flexible structure at Pension Insurance Corporation (PIC) and I get involved in a range of activities, including liaising with investors, corresponding with investment banks, developing longevity hedging and capital market solutions as well as dynamic solvency testing. Correspondingly, I very much benefit in the product development and pricing areas from the input of others in the team who have private equity, investment banking, fund management and securitisation expertise.

Prior to joining PIC I was at Watson Wyatt, where I acted as global actuary to a number of large multinationals and I was global head of M&A consulting.

## Do you have an example of a real banking/actuarial problem that you have been involved in solving recently?

The problem is one akin to that facing all other entrants into the pension buy out field; how to transact a solution at a price that the trustees/plan sponsor are willing and able to pay, while observing the rules and regulations applicable to an insurance company that will ensure the security and certainty of the promise to members of the scheme that is being taken over.

## How are you addressing this problem?

We have developed a number of approaches and are working both with our in-house and external teams to refine the structures needed to provide solutions, whilst avoiding complex structures that would be difficult to understand. One of the avenues that can be followed is to look at how this issue has been addressed in other areas of insurance. Pension liabilities remain one of the biggest financial risk areas for most companies, yet surprisingly it is an area where insurance is typically used little or not at all. In other areas of insurance, affordability is achieved by the insurance product focusing on those risks that the policyholder wishes to insure, while not insuring those risks that are expensive to insure (via deductibles or caps). In the context of pension schemes the risks that are expensive to insure are significant movements in longevity, long dated inflation risks, long dated interest rates and investment risk. By considering the extent to which the insurance covers these risks one can design products that are potentially more targeted and affordable.

## Who else is involved in solving the problem and how are you working together?

We are working with the financial structures teams at an investment bank to develop the appropriate solutions, both in terms of the front end of the products and in the behind the scenes structuring that is necessary.

## What lessons have you learned?

In order to arrive at optimal solutions it is important to bring in expertise from a wide variety of backgrounds. Our thinking has benefited tremendously from the involvement of colleagues who bring private equity, banking, and capital markets experience to bear on a traditionally actuarial area.

## More generally, do you see actuaries in banking as a natural fit?

Yes, although it is not for all actuaries. I believe that to be involved in the banking area you need to be somewhat of an optimist as there may be a lot of work involved in developing ideas that may not come to fruition in the long run; but that is part of the challenge!

This article is one of a series promoted by the actuarial profession's Action Group for Banking (AGB) and explores situations where the actuarial and banking worlds overlap to the benefit of both sectors. The articles serve the following broad purposes:

- **Push:** to demonstrate where actuarial skills and thinking have been applied in a banking or financial context to add real commercial value.
- **Pull:** to highlight tools and skills available in banking and finance that may be of use to traditional life and pensions actuaries.

Please contact the author for more information on the article and the AGB's activities: email [collinson@pensioninsurancecorp.com](mailto:collinson@pensioninsurancecorp.com)



David Collinson is head of liability acquisition at Pension Insurance Corporation (PIC)