

## Just Group: Higher interest rates are leading to more defined benefit insurance buy-outs

<b>Company:</b>	Just Group (JUST LN)	<b>Market Cap:</b>	£800mio
<b>Industry:</b>	Insurance	<b>Solvency II:</b>	204%
<b>Country:</b>	UK	<b>Revenue:</b>	£1.5bn*
<b>Date:</b>	7 <sup>th</sup> November 2023	<b>Net Income:</b>	£160mio*
<b>Dividend:</b>	3.4%	<b>Return on Equity:</b>	13%
<b>Entry:</b>	£800mio	<b>Target:</b>	£1.2bn (+50%)

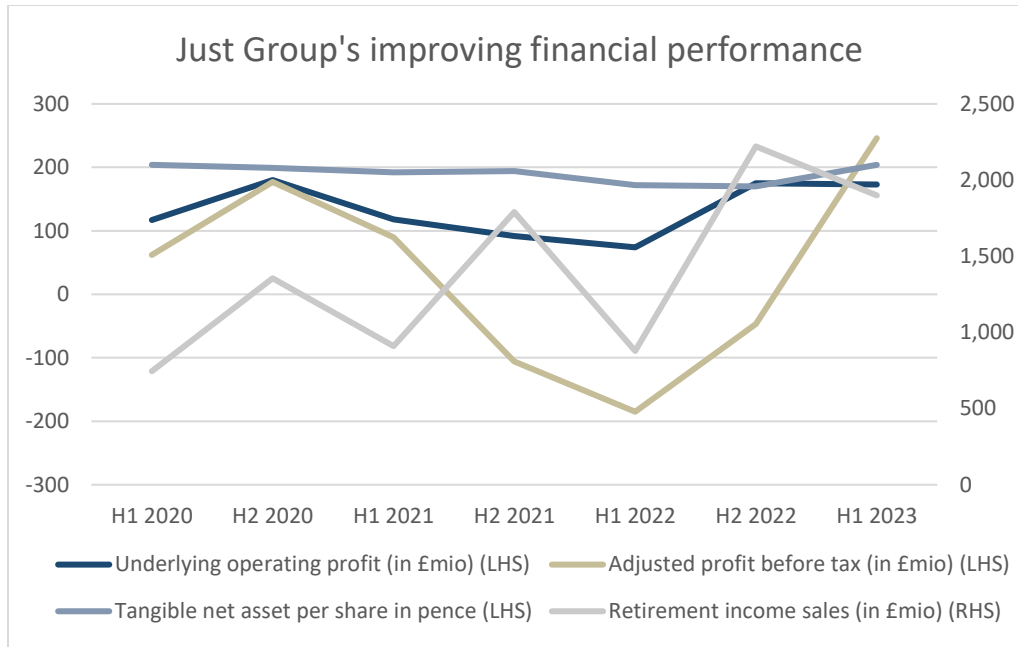
\*estimated based on doubling H1 23 results

### Why Just Group?

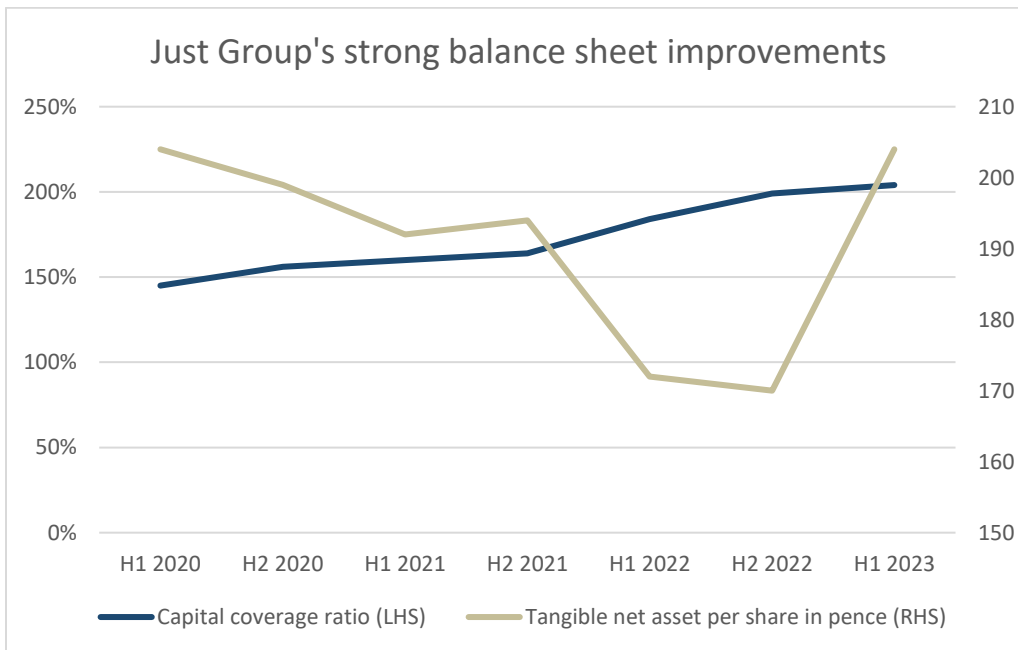
- Higher interest rates have led to higher discount rates on UK's 5,000 defined benefit pension schemes. These schemes are now in the money and are being bought out by insurance companies like Just Group
- Rumours of Brookfield Reinsurance looking to buy into the UK defined benefit pension insurance market with Just Group being a target that makes sense due to their focus and growth in this sector
- Very conservative investment strategy that has only incurred one default from the Washington Mutual insolvency in 2008. (They assume 70bps default scenario, but actual default scenario is 1bp)
- Top tier solvency II ratio, which climbs if interest rates are to climb further

## About Just Group

Just Group is an insurance company specialized in the 55+ aged customer group and has more than 1,100 employees, 650,000 customers and manages over £23bn of pension savings from these customers. In the past, Just focused on lifetime mortgages, which is an insurance product that releases equity from your home and provides tax-free cash for those seeking to take advantage of it. During the Covid time, the company transformed, sold off a portion of their lifetime mortgage book and focused on defined benefit (DB) pension buy-outs. In addition, Just provides guaranteed income for life (GfL), which is in strong demand when interest rates are high. The defined benefit pension market has become very active over the last year, as rising interest rates have led to higher discount factors, and in most cases, moved the pension deficit towards a pension surplus, enabling the corporation to let an insurance company buy-out the scheme and remove it from the corporate's balance sheet. Defined pension deficits can be a strain for corporates, as they need to reduce the deficit with annual pension contributions that often go into the millions of £. Of the 5,000 defined pension schemes, around 1,000 schemes are now fully funded, another 2,000 schemes are expected to be funded by 2030, and the remaining 2,000 schemes are in the longer term pipeline. In other words, of the £1.4trn DB market, £230bn has been transacted, leaving room for more transactions in the future. Just Group is the 3<sup>rd</sup> largest player in this market by number of transactions (with L&G = 2 and Aviva = 1) and carries a 27% market share of the <£100mio segment, 16% of £100-250mio segment and a 2% share of the £250-1bn segment. Last but not least, Just is also beginning to underwrite private medical insurance, which is likely to become another growth market with the NHS struggling and the UK government unable to increase the funding.



Source: Just Group



Source: Just Group

## Improving sensitivities

Insurance companies are always exposed to risks, and so is Just Group. However, Just has begun adjusting their interest rate exposure and in effect locking in some nice profits for the future. While a 50bps decline in interest rates would have caused the solvency II ratio to decline by 13% points, it would now only decrease by 6% points. Hence, in an absolute worst case scenario, where we would have a credit quality downgrade, a 300bps interest rate decline and a 20% decline in property values, Just's solvency coverage ratio would fall by 66% points to 138%, which would still leave them room avoiding any equity raise. These are strong figures and puts them almost on par with Aviva and at perhaps better numbers than Legal & General.

### Just Group sensitivities

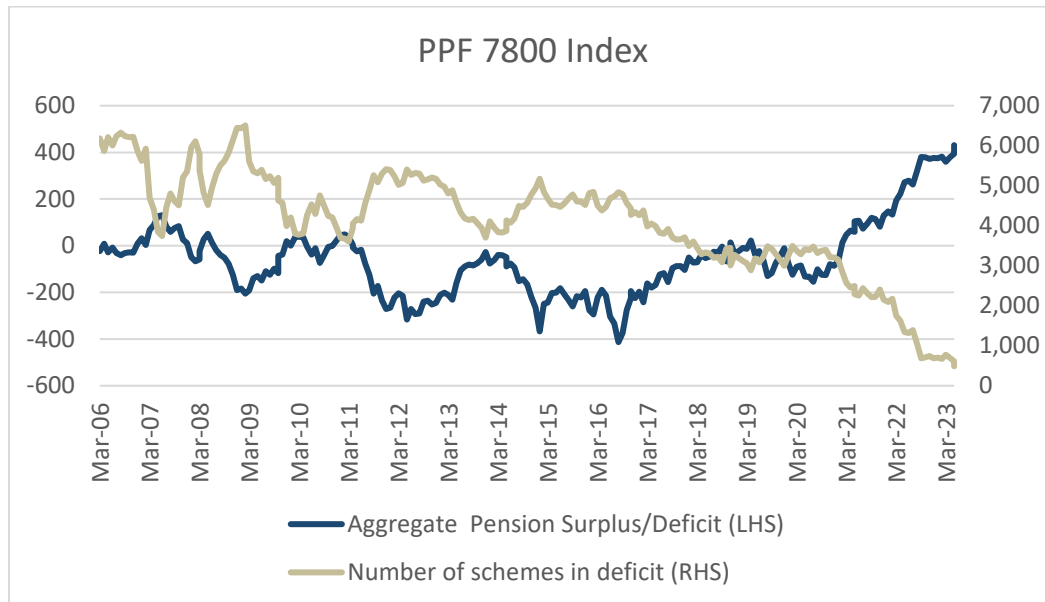
Category	June 2023 %	June 2023 £mio	Dec 2022 %
Solvency coverage ratio/excess own funds	204	1,375	199
-50bps fall in interest rates (with TMTP recalculation)	-6	-22	-13
+50bps increase in interest rates (with TMTP recalculation)	5	28	13
+100bps credit spreads (with TMTP recalculation)	12	74	8
Credit quality step downgrade	-8	-106	-8
+10% LTM early redemption	1	15	1
-10% property values (with TMTP recalculation)	-11	-123	-12
-5% mortality	-10	-132	-10

Source: Just Group

## The opportunity: 5,000 DB schemes

Just Group is particularly focused on the smaller schemes with <£100mio transaction size, as the larger insurer don't bother with it, which in turn delivers Just higher margins. The higher interest rate environment, as mentioned above, has shifted a lot of these DB pension schemes into surplus amidst the higher discount rate. In general, pricing of these buy-outs is quoted as Gilts flat or Gilt + 20bps or +50bps. Just, on the other hand, can often get Gilt +200bps or +250bps in the smaller segment of the market. There is also a fair bit of technology involved, which helps Just outcompete the market, as they price smaller schemes automatically with software that uses input from the customers, such as age, postcode,

medical conditions etc. with less data making the price more expensive. After 1-2 years, Just will have received the full data, and will then adjust their pricing in case there is a large divergence (i.e. they will pay a bit extra or give back).

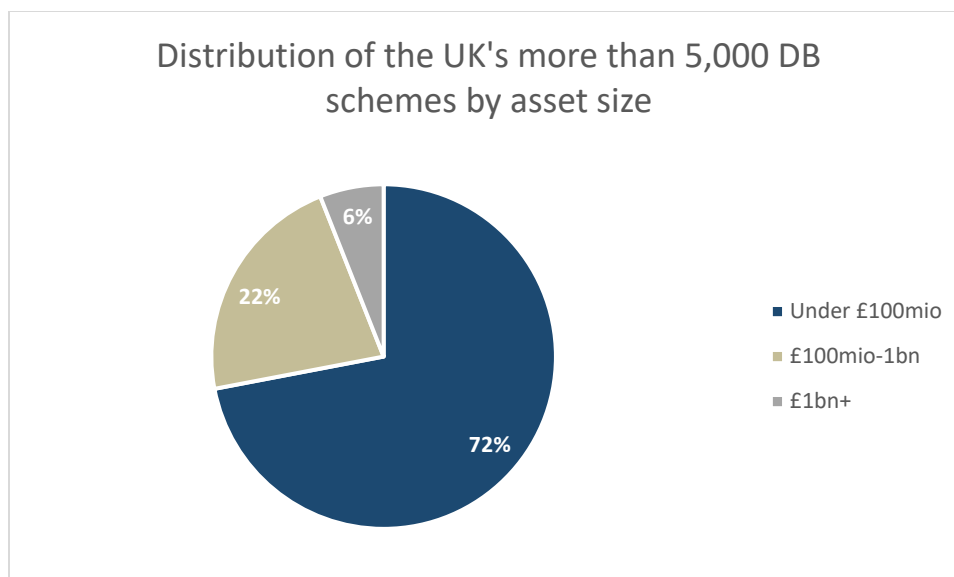


Source: Pension Protection Fund

### Market positioning of DB players

Company	Appetite by transaction size		
	<£100mio	£100mio-£1bn	£1bn+
Aviva	✓	✓	✓
Legal & General	✓	✓	✓
Just Group	✓	✓	☑
PIC	☑	✓	✓
Rothsay	X	✓	✓
Phoenix	X	✓	✓
Canada Life	☑	☑	X
Scottish Widows	☑	✓	☑

Source: Just Group



Source: Just Group

### Potential takeover?

As news hit the wires that Brookfield Reinsurance is looking to enter the DB pension insurance market, Just Group presents itself as the ideal takeover target<sup>1</sup>. Just Group has a stronger focus on the DB pension market compared to Aviva and reduced sensitivity risks compared to Legal & General. The lifetime mortgage (LTM) book has only 36.5% loan-to-value and is expected to decline further over the years, with solvency II sensitivities to remain stable or decline slightly over the future. The growth of the industry and of Just within this sector makes Just both, a strong takeover target, and a strong standalone business that is trading at 36% tangible NAV.



<sup>1</sup> <https://www.marketscreener.com/quote/stock/BROOKFIELD-REINSURANCE-LT-124171456/news/Exclusive-Brookfield-weighs-move-into-UK-pension-insurance-market-sources-45074109/>

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