



International investment in European pensions

The European pension market, including mature systems in countries such as the Netherlands, the UK, and Germany, attracts significant interest from foreign investors despite its complex and stringent regulatory environment. These investors face substantial challenges, including rigorous capital requirements under frameworks like Solvency II, evolving pension reforms, and intricate local market nuances.

Nevertheless, foreign investors continue to allocate capital to European pensions, driven by factors that outweigh these regulatory and operational difficulties. The scale of assets supporting pensions in Europe provides access to large, well-managed pools that are difficult to replicate elsewhere. Furthermore, the long-term, stable cash flows and diversified risk profiles of pension liabilities align with the strategic objectives of international insurers and asset managers seeking growth beyond their often-saturated domestic markets.

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This article examines the key drivers behind the sustained foreign acquisition of European pensions. It explores the growth opportunities motivating such investments, including demographic shifts and market saturation in home countries, access to diverse and extensive asset portfolios, and the opportunity to apply advanced pension and asset management capabilities. Additionally, it considers the ongoing challenges these investors encounter, emphasizing the balancing act required to navigate regulatory constraints while capitalizing on the European pension market's potential.

MOTIVATIONS FOR INTERNATIONAL INVESTMENT IN EUROPEAN PENSIONS

1. Growth Prospects

One primary driver for international investment in European pensions is the search for growth. Many insurers from well-capitalized but mature and stagnant insurance markets seek expansion opportunities overseas. Japan serves as a prominent example. Facing demographic decline and market saturation domestically, Japanese insurers strategically invest in Europe's pension markets to secure stable, long-term growth and diversify their revenue sources.

Nippon Life Insurance's acquisition of Resolution Life, a UK-based closed life insurer specializing in pension buyouts and annuities, illustrates this strategy. Valued at several billion pounds, the acquisition enables Nippon Life to participate in the UK's established pension risk transfer market, gaining scale and expertise while overcoming domestic growth limitations. Japanese insurers increasingly employ overseas acquisitions and reinsurance to optimize capital efficiency and broaden their asset management capabilities.

2. Asset Access and Diversification

A core attraction for international investors is access to substantial asset pools within European pensions. These markets collectively manage trillions of euros in assets, representing a significant opportunity for capital deployment in mature and liquid environments. For instance, Apollo Global Management's investment in the UK's Pension Insurance

Corporation (PIC) (which manages approximately £40 billion in pension liabilities) exemplifies how international investors access large pension portfolios while enhancing operational effectiveness through investment expertise.

Beyond scale, investors from regions such as China and the Middle East target European pensions for portfolio diversification by targeting specific asset classes that would have positive diversification effects for them locally: Chinese investors focus on acquiring pension funds with asset portfolios that are exposed to infrastructure projects, while Gulf Cooperation Council sovereign wealth funds allocate capital pensions with real estate and infrastructure in their portfolios in countries like the UK, France, and the Nordics. These investments help diversify away from domestic market or resource-dependent economies, offering stable returns aligned with pension fund mandates.

3. Application of pension and asset management expertise

International pension funds from countries like Canada and Australia bring significant pension and asset management experience when investing in European pensions. Canadian entities such as the Canada Pension Plan Investment Board (CPPIB) and the Ontario Teachers' Pension Plan have extensive histories of global pension investments, leveraging this expertise to optimize asset-liability management and enhance returns in Europe. Similarly, Australian superannuation funds contribute robust asset management capabilities to the European market, particularly in pension consolidation and risk transfer.

Such investors excel in managing long-term pension liabilities and conducting complex risk assessments, skills imperative in the European context, especially with regard to pension risk transfer and buyout transactions. Although their European acquisitions are sometimes less visible than infrastructure investments, their growing presence reflects a strategic approach to applying sophisticated pension management practices internationally.

CHALLENGES FOR INTERNATIONAL INVESTORS IN EUROPE

Despite significant opportunities, international investors encounter several challenges unique to the European pension and insurance markets:

1. Regulatory complexity

European pensions operate under detailed regulations, notably Solvency II (when the pension contract falls under an insurance company), which imposes demanding capital and risk management standards. This requires foreign insurers to hold substantial capital reserves and comply with diverse national rules, complicating market entry. These regulatory regimes are often more complex than those

found in foreign markets, making it a significant challenge for insurers unfamiliar with European capital regimes.

2. Capital intensity and risk constraints

Pension risk transfer involves long-term liabilities with exposure to longevity and market risk. High regulatory capital charges under Solvency II reduce capital efficiency, limiting profitability for international insurers.

3. Shrinking capital-intensive reinsurance

Capital-intensive reinsurance, traditionally used to optimize capital, is contracting due to stricter regulations and market changes. This limits efficient capital deployment in Europe. For American investors, accustomed to capital-intensive reinsurance in North American risk transfers, this makes pension transfers in Europe materially different.

4. Pension market evolution and transition risks

The ongoing shift from Defined Benefit to Defined Contribution schemes, notably in the Netherlands, creates uncertainty. Regulatory frameworks and operational structures are evolving, which can delay transactions and require adaptability.

5. Local market nuances and operational complexity

European pension markets are fragmented with varying legal, tax, and actuarial frameworks. Investors must navigate these differences, manage currency risks, and align with local governance models.

6. Currency and macroeconomic risks

Investments face exposure to foreign exchange fluctuations, economic volatility, and political risks within the European Union and associated markets, complicating long-term asset-liability matching.

CONCLUSION

International investment in European pensions is driven by growth prospects, access to large and diversified asset pools, and the application of advanced pension management expertise. However, the complexity of the regulatory environment, capital intensity, evolving pension landscapes, and local market nuances present significant challenges.

For European insurance professionals, engagement with international investors presents an opportunity to develop innovative solutions that address these challenges. By navigating regulatory complexities and capital management issues while leveraging global expertise, the European pension and insurance markets can advance toward sustainable growth and greater integration in the global financial ecosystem. ■

