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Lloyds Banking Group (Scottish Widows) acquisition of Zurich workplace saving

Lloyds Banking Group has announced that they will acquire Zurich's UK workplace pension business to accelerate growth of their Scottish Widows brand.

This is the latest episode in an ongoing story of consolidation in the UK Defined Contribution (DC) pension market, including Aviva snapping up Friends Life and Aegon buying BlackRock's UK DC business.

Background

The consolidation is being driven by the need for scale. DC pension providers are trying to react to market requirements for more flexible products whilst also being subject to downward pressure on charges and increased regulatory scrutiny. Many providers are coming to the conclusion that the only way to be viable in this environment is to be big, and are either getting out the chequebook or putting up the For Sale sign.

The Acquisition

This acquisition is a case in point. Scottish Widows has a huge presence in the DC market, but mostly with small to medium sized employers. They manage over 10,000 schemes containing upwards of £30Bn of pension assets. They have a long list of improvements they want to make to their proposition in order to be more credible with larger pension schemes, including better investment solutions, seamless freedom & choice at retirement options, the ability to offer Trust based pension schemes including the increasingly popular Master Trust, and integrated workplace savings solutions such as ISAs.

Zurich's UK pension business is very different to Scottish Widows. At £15Bn they are managing half of the pension assets of Scottish Widows, but this is across only 400 schemes. Zurich already has all of the functionality that Scottish Widows craves. On paper the acquisition gives Scottish Widows greater scale and a comprehensive range of pension solutions for schemes of all sizes and complexity. Zurich benefits by disposing of a non-core business and gaining distribution for their insurance products through the Lloyds Banking network.

Comment

The deal seems mutually beneficial and Conduent view it as positive. The apparent desire to harness the strengths of the two organisations is encouraging, and both Scottish Widows and Zurich pension clients could benefit from the wider strengths of the two organisations.

However experience of previous mergers and acquisitions has taught us to be cautious. Whilst the rationale is strong, and the long term picture encouraging, very few mergers complete without some impact on the two parties along the way. In pensions this can often manifest in service delivery and technology issues, sometimes sporadic and sometimes more sustained.

Conduent will be monitoring the situation over the integration period and will keep our clients with Zurich or Scottish Widows informed along the way. For further information or to consider how the drivers behind the acquisition might impact on your own scheme please contact your DC Consultant or cfp@conduent.com .

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