

SUSTAINABILITY PRINCIPLES CHARTER

FOR THE BULK ANNUITY PROCESS

ONE-YEAR PROGRESS REPORT



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PRINCIPLES CHARTER**
FOR THE BULK ANNUITY PROCESS



**ACCOUNTING FOR
SUSTAINABILITY**

FOREWORD

The future is in our hands. The actions we take today will determine the world we live in for centuries to come. While commitment to climate action has grown significantly over the past few years, emissions are still rising instead of falling, and we are currently on a path towards a 2.6°C world¹.

The implications of these trends are already being seen right across our global economy, impacts that will only grow with time. Investing in the opportunities that the transition to a sustainable economy presents, as well as addressing the significant risks from a failure to adapt, is critical. As custodians of millions of people's investments, pension schemes understand that systemic risk like climate change presents a significant financial risk, and it unquestionably falls within a pension trustee's fiduciary duty to consider and integrate sustainability impacts into investment decisions.

In the UK, a large portion of the £1.3 trillion of assets under management from closed defined benefit schemes are already or will very shortly be transferring over to an insurer. This means that the responsibility in managing the assets with prudence and loyalty transfers from trustees to the appointed insurer. As part of this process, it is vital that sustainability considerations and addressing systemic risks continue to be embedded into the future investment decisions of these pension assets.

This is why pension scheme chairs from the [A4S Asset Owners Network](#) asked us to see if more could be done to increase transparency, engagement and reporting as part of their transactions with bulk annuity providers. To this effect, A4S, along with Railpen and the Church of England Pensions Board, initiated the [Sustainability Principles Charter for the bulk annuity process](#). This Charter provides a helpful guiding framework for the integration of sustainability throughout the bulk annuity process – from the due diligence and insurer selection process through to post-transaction reporting to members. It helps ensure that systemic risks like climate change and biodiversity loss are accounted for, with risks mitigated and opportunities identified.

Following the launch of the Charter last year, the initiative has grown into a cross-industry collaboration with insurers, pensions and advisers, all motivated by a common goal to raise the bar on how sustainability is embedded into the process. This has enabled a frank and open dialogue across the different organizations on how to address inefficiencies, enhance transparency and raise standard practice.

This one-year progress report outlines the tangible progress made by the Charter signatories, collectively. This progress not only supports defined benefit schemes in their endgame planning, but also all pension schemes who see themselves as universal owners and therefore are impacted by how other actors across the markets address systemic risk.



JESSICA FRIES,
Executive Chair, A4S

1. [UNEP, Emissions Gap Report 2024](#)

ABOUT

Most occupational defined benefit (DB) pension schemes in the UK, representing c. £1.3 trillion in assets under management, are now closed, with many maturing on a path which considers transacting with a pension insurer – called a bulk annuity transaction. Since 2023, there has been a significant rise in these transactions, with a further £500 billion+ of transactions expected over the next five to ten years.²

Prior to the Sustainability Principles Charter for the bulk annuity process, some pension schemes integrated a consideration of sustainability into their due diligence of insurers, but this was undertaken on a transaction-by-transaction basis, and offered limited scope for productive engagement with insurers on sustainability topics.

Pension schemes wanted to understand how sustainability-related risks and opportunities – something they embedded into their own investment decision-making processes – would continue once a bulk annuity transaction had been completed. There was a reasonable expectation that sustainability-related pledges and approaches would be fulfilled as far as possible and without disruption from a bulk annuity transaction, but there was a lack of assurance on this. Especially because on completion of a transaction, engagement on sustainability between the pension scheme and insurer would usually cease.

These concerns were voiced by members of the A4S [UK Asset Owners Network](#), a network for chairs of pension schemes, in mid-2023. The pension chairs wanted increased transparency, both before the point of transaction to compare how insurer approaches to sustainability align to their own, as well as post transaction to assess continued alignment.

To this effect, A4S, alongside the Church of England Pensions Board and Railpen, convened pension schemes' chairs, board members from the bulk annuity businesses and senior representatives from advisers to articulate the concerns and coordinate a practical way forward. The Sustainability Principles Charter for the bulk annuity process was therefore created. Signatories to the Charter committed not only to adhering to the Charter principles but also participating in steering and working groups to support implementation of these principles.



Full list of signatories can be found on [Charter's webpage](#).

2. [WTW, The dynamics of a busy bulk annuity market: de-risking report 2024](#)

THE SUSTAINABILITY PRINCIPLES CHARTER FOR THE BULK ANNUITY PROCESS

Launched in February 2024, the Charter sets out clear principles to drive greater transparency, reporting and engagement before, during and after a bulk annuity transaction. It clearly articulates what pension schemes want to see from insurers, what good looks like, as well as what it means to go above and beyond.

“The Charter represents a fantastic opportunity to provide comparable and decision-useful insight into sustainability factors for trustees and sponsors prior to entering into what could be the most material transaction of a scheme’s life.

Michael Bushnell, Managing Director, Cardano



The full Charter can be downloaded here.

THE FOUR CHARTER PRINCIPLES

- 1. Transparency** – Transparency of values, principles and investment beliefs in relation to sustainability, as well as ongoing commitments that may guide future policy and practice affecting sustainability approaches.
- 2. Decision making** – Evidence and understanding of how sustainability considerations are incorporated into investment analysis and decision-making processes, and investment stewardship activity.
- 3. Reporting and Engagement** – Ongoing reporting and engagement to pension members (for buy-outs) and trustees (for buy-ins) on sustainability commitments beyond the point of transaction.
- 4. Collaboration** – Commitment to ongoing engagement across the pension sector as responsible investment best practice evolves.

FOUNDERS OF THE INITIATIVE



““ To ensure that pension schemes’ assets continue to be resilient to systemic risks, it is vital that the bar is set high on how sustainability is integrated across the bulk annuity process. This Charter provides an industry-wide framework to promote and enable this.

Kerry King, Executive Director of Capital Markets, A4S



““ Not only is the Charter a helpful guiding tool during the bulk annuity process, but it also means that we have an opportunity to engage with (almost) the whole pension insurance and advisory industry; a forum to explore alignment, on behalf of our members, on sustainability, stewardship, and transparency.

Dr Stephen Barrie, Deputy Chief Responsible Investment Officer, Church of England Pensions Board



““ In years to come, the pensions industry could see hundreds of billions of pounds of DB assets transfer to the insurance industry through bulk annuity transactions. We believe that this charter will form a critical element in the bulk annuity process, to the ultimate benefit of members.

Tim Miller, Senior Manager of Pensions Policy, Railpen

PROGRESS TO DATE

The participation of 30+ signatories across pension schemes, insurers and advisers in the initiative's working and steering groups has helped accelerate change in the industry. Without sharing any commercially sensitive information, and being careful to abide by the letter and spirit of anti-competitive/anti-trust laws, this cross-industry collaboration has focused on embedding the Charter principles into decision-making processes and addressing inefficiencies in the system.

It's been incredibly helpful to get a deeper understanding of the perspective of the trustees throughout this process and indeed that of the employee benefit consultants (EBC) and other insurers. The whole process has highlighted that all parties are committed to increasing transparency – and that's hugely beneficial.

Bianca Hanscombe, Head of Sustainable Investments, Aviva

It has been re-assuring and insightful to hear the innovative ideas from other signatories. During the working groups, it has been evident how a unified approach is the best driver for Charter progression.

Alex Quant, Head of ESG Research, XPS Group

97% of the UK BPA* market

represented by insurer signatories

*bulk purchase annuity



£3.1 trillion*

UK-based assets under advisory represented by adviser signatories

*Data from 8 of the 10 adviser signatories, may include duplicate AUA if advisers share clients

Over £100bn

assets under management represented by pension scheme signatories



10 to 1

The Bulk Annuity Sustainability Survey will reduce the average number of sustainability surveys completed by insurers annually from 10 to 1.



£2.05bn

assets under management in bulk annuity transactions cited the Charter as instrumental during the selection process

1**Adopting a standard sustainability survey****2****Growing the prominence of sustainability****3****Increasing sustainability-related reporting to trustees and members****1**

ADOPTING A STANDARD SUSTAINABILITY SURVEY

In the bulk annuity selection process, advisers help pension schemes assess the sustainability credentials of these insurers. Prior to this initiative, this was achieved through advisers issuing their individual sustainability survey to each insurer, and then assessing their responses to it. This approach was resource intensive for the insurers.

To address this, A4S developed the Bulk Annuity Sustainability Survey (BASS), with input from all insurer and adviser signatories. As it offers the potential to replace all other advisers' sustainability surveys, signatories expect it to immediately improve process efficiency and the level of information available for comparing insurer responses. Moreover, it is structured around the Charter principles and sets a high bar on how bulk annuity providers should be considering sustainability in their strategic and investment decisions.

The BASS will be rolled out in 2025 with all insurer and adviser signatories having committed to using this from now on.

It remains early days, but we are particularly excited about the standardization of surveys, reducing time spent answering similar surveys which can be redeployed elsewhere.

This standardization will also be helpful for trustees to compare providers.

Kunal Sood, Managing Director of Defined Benefit Solutions and Reinsurance, Standard Life, part of Phoenix Group

The standardization of the data requests and the engagement of the insurers makes the data collection process more streamlined and collaborative.

Andrew Ward, Partner and Head of Risk Transfer, Mercer

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GROWING THE PROMINENCE OF SUSTAINABILITY

Signs are emerging that the initiative is helping to drive conversations about how insurers are addressing systemic risk within the bulk annuity process.

Since its launch, bulk annuity transactions have started to reference the Charter and sustainability considerations as a primary selection criterion. The Church of England Pensions Board, National Grid Electricity Group's Electricity Supply Pension Scheme and Merseyside Pension Fund all stated that the sustainability credentials of insurers, as well as participation in the Charter, were key reasons for selecting their recent buy-in provider.

The Charter has improved the way we assess prospective bulk annuity partners on sustainability and investment stewardship. In 2024 shortlisted insurers were assessed against the Charter, and performance against this assessment was one of the key criteria the trustees adopted for proceeding with a £145 million buy-in transaction for one of our pension schemes.

John Ball, Chief Executive, Church of England Pensions Board

It was great to see, despite the busy market, all insurers engage openly on the sustainability Charter as part of the first live project to put it into action. This ensured that the Church of England Pensions Board was able to put sustainability at the heart of its decision-making process, rather than just focusing solely on pricing.

David Salter, Partner, LCP

The Pension Regulator's [Annual Funding Statement 2024](#) has been updated to encourage trustees to take sustainability into account during their due diligence, recommending the Charter as helpful guidance.

The increased prominence of sustainability considerations in the bulk annuity process is starting to have a knock-on effect on insurers' engagement with their service providers, such as re-insurers and asset managers.

The Charter offers an invaluable framework for discussions with our asset managers as we consider options for further development.

Paul Bowker, Director of BPA Solutions, Royal London

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INCREASING SUSTAINABILITY-RELATED REPORTING TO TRUSTEES AND MEMBERS

The third principle of the Charter is about increasing the level of sustainability-related reporting to members (for buy-outs) and trustees (for buy-ins). This enables members and trustees to see how sustainability-related values, principles and investment beliefs are implemented beyond the point of transaction. Following an insurer-wide review of current sustainability-related reporting practices, the signatory insurers have agreed to work within their organizations to increase the inclusion of sustainability into their communications with both members and trustees.

This is a developing area, but the cross-sector collaboration has meant that insurers are being exposed to good practice examples of reporting by pension schemes to their members, as well as receiving a clearer indication of the type and frequency of reporting that trustees value the most in buy-ins.

We found it very useful seeing how pension schemes communicate with their customers on the topics of the Charter to help inform our own customer communication strategy. On the back of this we are evolving the communication of our own sustainability efforts to our customers including sustainability-related impacts in our customer welcome packs from 2025 onwards.

**Dave Poulton, Chief Customer Officer,
Institutional Retirement, L&G**

NEXT STEPS AND HOW TO GET INVOLVED

As the signatories roll out the BASS, enhance their member and trustee reporting, and seek to implement all four Charter principles, the initiative will be identifying future areas of focus, such as incorporating nature and biodiversity into the Charter and sharing insights with different bulk annuity and related markets.

To sign up as a signatory, or to find out more about this initiative in general, please email info@a4s.org. More details are also available on the [Charter webpage](#).



ABOUT A4S

A4S was established by HM King Charles III, when he was The Prince of Wales, in 2004 to make sustainable business, business as usual. We are part of the King Charles III Charitable Fund Group of Charities.

We work with the global finance and accounting community to:

- Inspire finance leaders to adopt sustainable and resilient business models
- Transform financial decision making to respond to the opportunities and risks posed by the climate crisis and other environmental and social issues
- Scale up action to transition to a sustainable economy

A4S leverages its global networks, including the CFO Leadership Network, Circles of Practice, Accounting Bodies Network and Asset Owners Network, to enable the finance and accounting community to take a leadership role on sustainability. Through our outreach activities and A4S Academy learning and implementation programme, we empower and equip finance and accounting teams to embed sustainability in their organizations.

RELATED A4S MATERIAL

- [A4S Sustainability Toolkit for Pension Chairs and Trustees](#)

A4S CONTRIBUTORS

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 [Accounting for Sustainability \(A4S\)](#)

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