

A Sustainability Principles Charter for the bulk annuity process

Background

The majority of occupational defined benefit (DB) pension schemes in the UK, representing c. £1.4 trillion in assets under management¹, are now closed, with many maturing on a path which considers transacting with a pension insurer. Insurers therefore play an increasingly important role in ensuring that pension investments are both resilient to the climate, nature and social crises that we face, as well as playing an active role in investing in a more sustainable world for pension members to retire into.

Many DB pension schemes have made sustainability-related commitments on behalf of their members, for example setting a net zero target, and want to know the extent to which the sustainability characteristics of a bulk annuity transaction will align with these commitments, both at the point of transaction and in the future. Pension schemes therefore require transparency before the point of transaction to compare insurer approaches to sustainability as well as information beyond the point of transaction to assess continued alignment. Insurers also value guidance from pension schemes and their advisers as to the information that will be valued in coming to this assessment.

Over the course of 2023, Accounting for Sustainability (A4S), The Church of England Pensions Board and Railpen have brought together pension fund chairs, insurers, pension advisers and the regulatory community with the aim to better align expectations around sustainability within the bulk annuity process. As custodians of DB pension assets (pre and post bulk annuity transaction), and as advisers of those custodians, we all recognize the role we can play in engaging actively with other key stakeholders involved in the bulk annuity process around these challenges. As an output to this engagement, this Charter sets out clear principles to better align expectations around sustainability before, during and after a buy-out or buy-in transaction, between pension funds, insurers and advisers.



¹ UK Parliament (2023) [Defined benefit pension schemes](#)

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Charter Principle	View from the Pensions World	Expected information from insurers	What good looks like	Differentiator examples (ie going further)
<p>1. <i>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.</i></p>	<p>Many DB pension schemes have deep sustainability integration at the strategic asset allocation, mandate and issuer levels, and have communicated these commitments to beneficiaries. There is a risk that the sustainability characteristics of a bulk-annuity transaction might misalign with these commitments, either now, or in the future. Pension schemes therefore require transparency from bulk annuity providers regarding sustainability and stewardship approaches, and the factors that may guide future policy and practice, so that pension schemes can be clear on differences between insurers, and any misalignment with their own approach. Any consistency in the way bulk-annuity providers disclose this information would be helpful.</p>	<p>Insurers to provide (either on a standalone basis or by pointing to existing reporting):</p> <ul style="list-style-type: none"> • Clear explanation of values, principles and investment beliefs in relation to sustainability in bulk annuity activity. • Clear explanation of factors that may influence future changes in policy and practice affecting sustainability approaches. 	<ul style="list-style-type: none"> • Insurers are able to demonstrate clear sustainability commitments (covering climate, nature, social and wider sustainability considerations as they develop) over the short, medium, and long-term, in relation to the bulk annuity process. • Insurers are able to articulate clear consistency between their organization’s wider corporate sustainability strategy, and their bulk annuity activity. 	<ul style="list-style-type: none"> • The insurer has a formal Net Zero commitment that adheres to a recognized methodology (eg NZIF, NZIA or NZAOA). • The insurer has become a TNFD* Adopter, committing to publishing TNFD-aligned disclosures in 2024/25. (*Taskforce on Nature-related Financial Disclosures).
<p>2. <i>Evidence and understanding of how sustainability considerations are incorporated into investment analysis and decision-making processes, and</i></p>	<p>Pension schemes need to assess how insurers’ values, principles and investment beliefs in relation to sustainability are being embedded into investment and strategic decision-making processes in practice. As well as allowing</p>	<p>Insurers to provide (either on a standalone basis or by pointing to existing reporting):</p> <ul style="list-style-type: none"> • Clear explanations and evidence of how values, principles and investment beliefs in relation to 	<ul style="list-style-type: none"> • Insurers are able to demonstrate clear evidence of how, and the extent to which, their values, principles and investment beliefs are implemented in practice. • Insurers are able to demonstrate the 	<ul style="list-style-type: none"> • Insurer commitments are incorporated into the contractual documentation for reinsurance transactions or external asset manager relationships. • The insurer has specific examples of modifying

<p><i>investment stewardship activity.</i></p>	<p>schemes to compare insurers, this may also point to areas where pension schemes and insurers could actively collaborate (via collaborative engagement initiatives for example).</p>	<p>sustainability are incorporated into:</p> <ul style="list-style-type: none"> ○ investment analysis and decision-making processes eg rating methodology and grades. ○ delegations to external asset managers and re-insurers. ○ investment stewardship activity. 	<p>methodology they use to measure progress and impact.</p> <ul style="list-style-type: none"> ● Sustainability and stewardship demonstrably forms part of insurers' assessment/due diligence framework for reinsurance and the use of external asset managers. 	<p>investment decisions or processes as a result of investment beliefs on sustainability.</p> <ul style="list-style-type: none"> ● The insurer demonstrates how they incorporate sustainability beliefs into investment decisions, including how sustainability-related factors are evaluated and weighted. ● The insurer's senior management remuneration policies are clearly linked to implementing sustainability goals. ● The insurer publishes their voting policy (where applicable) and other stewardship activities.
<p>3. <i>Ongoing reporting and engagement to key stakeholders on sustainability commitments beyond the point of transaction.</i></p>	<p>Ongoing reporting from insurers should enable key stakeholders to assess whether insurers are continuing to implement values, principles and investment beliefs beyond the point of transaction.</p>	<p>Insurers to provide (either on a standalone basis or by pointing to existing reporting):</p> <ul style="list-style-type: none"> ● Annual reporting to trustees (for Buy-ins) and beneficiaries (for Buy-outs) on sustainability commitments, including: <ul style="list-style-type: none"> ○ Values, principles and investment beliefs in relation to sustainability, including any changes, and why. ○ Clear explanation of how, and the extent to which, the insurer (and any of its external asset 	<ul style="list-style-type: none"> ● Insurers are able to demonstrate clear evidence of how, and the extent to which, their values, principles and investment beliefs have been implemented over the reporting period. ● Detail of the most significant votes and/or other stewardship activity carried out by the insurer, or on its behalf, over the reporting period. ● Reporting on asset holdings includes weighted average carbon intensity, absolute emissions, and portfolio alignment measures with 	<ul style="list-style-type: none"> ● Optional bespoke reporting for each scheme to highlight specific factors eg insurer asset holdings relative to a scheme's own exclusion policies. ● Separate engagement materials for trustees and advisers with accessible, engaging communication for members where appropriate. ● The insurer provides an engagement plan, outlining stewardship activities it plans to undertake and the outcomes being sought. ● Voting records (where applicable) and stewardship

		<p>managers and re-insurers) has followed each of its values, principles, and investment beliefs in relation to sustainability over the year.</p> <ul style="list-style-type: none"> ○ Details of stewardship activity including voting behaviour by and on behalf of the insurer over the year. ○ Reporting of asset holdings that is consistent with the insurer's sustainability-related commitments and relevant reporting requirements. 	<p>interim targets for net zero related commitments.</p> <ul style="list-style-type: none"> ● Insurers are able to demonstrate clear examples of progress against stated aims and targets. ● Insurers provide guidance as to any material new commitments, management changes or processes which they expect to implement over the coming period. 	<p>activities for all holdings in respect of bulk annuity activity are disclosed on the insurer's website.</p>
<p>4. <i>Commitment to ongoing engagement across the pension sector as responsible investment best practice evolves.</i></p>	<p>Sustainability is a continually evolving area and there is an opportunity for pension schemes, insurers, advisers and regulators to work together to improve best practice across the pension sector.</p>	<p>Insurers to:</p> <ul style="list-style-type: none"> ● Support the evolution of this Charter over time, considering latest developments in responsible investment best practice and the sustainability characteristics of bulk annuity transactions. ● Appoint a senior manager responsible for reporting back on alignment to this Sustainability Charter. 	<ul style="list-style-type: none"> ● Insurers work with other stakeholder groups to collectively develop an accessible, member-friendly, reporting template to be used as a consistent standard. ● Insurers and other market participants develop meaningful ongoing dialogue, helping insurers to develop products that meet market demand and helping pension schemes support that change (for example by investing in assets attractive to the insurers' sustainability aims). 	<ul style="list-style-type: none"> ● The insurer adopts innovative ways to enable greater sustainability-related impact for specific transactions. ● The insurer collaborates on research and innovation projects with pension schemes, academic institutions, and sustainability-focused organizations to increase scale and impact of sustainability solutions.

A full list of signatories can be found at <https://www.accountingforsustainability.org/en/about-us/our-networks/asset-owners-network/bulk-annuity-sustainability-principles-charter.html>