



Press Release

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DWP consultation: ‘Pensions industry should follow insurer market practice’, says K3 Advisory

K3, the pension market’s only specialist independent bulk annuity and consolidator advisory business, has responded to the Department of Work and Pensions’ (DWP) consultation on DB pension scheme consolidation, stressing that the industry should take learnings from the insurance market, whilst remembering the unique responsibility to members.

Adam Davis, Managing Director at K3, commented: “The increasing role that consolidators could play in helping UK DB schemes to de-risk, and ultimately protect member benefits, is a good thing. And with the insurer and consolidation markets so closely aligned, it’s also encouraging to see DWP considering insurance-based approaches to financial adequacy tests. That said, we should be looking at other learnings we might take on board.

“Looking at the regulatory side, we should allow the Prudential Regulatory Authority’s (PRA) tried, tested and proven approaches to guide us. Insurers are heavily regulated and must demonstrate their ability to understand and manage risk to avoid a situation where the capital backing those risks would run out. A Superfund should boast a similar level of sophistication considering potential impact on members at stake. PRA also requires active updates on large transactions, another approach that could make sense to adopt. For Superfunds, any pricing error on trade not only puts member security at risk, but the Fund as a whole.

“When considering the basis of the proposed authorisations, we would argue that the foundations for this already exist in the insurance regime. Insurers are required to calculate a best estimate liability and set their capital appropriately for the risks they run. It seems logical that a Superfund would adopt a similar approach. However, for superfunds to be an achievable goal for the schemes that need them most the level of security needs to be





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appropriate. Though insurers must hold capital to give a 99.5% certainty of paying all members' benefits, forcing consolidators to operate at a 99% level isn't going to provide a viable alternative for those schemes who need consolidator solutions the most".

Davis added: "When looking to different industries or countries for inspiration and guidance, it's important to remember the different factors that are unique to the pensions industry and ensure any solutions are appropriately adapted. Member outcomes and security really are at the heart of pension schemes, and so while we can take influence, we are working towards very human-orientated goals."

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Notes to editors

K3 Advisory is the pension market's only specialist independent bulk annuity and consolidator advisory business. Using first-hand experience from both the insurance and pensions sectors, K3 Advisory provides trustees and scheme sponsors with advice and brokering services to secure a smooth and effective transfer of liabilities to an insurer or consolidation vehicle.

The business was founded and formed by Adam Davis in 2018 with the aim of providing truly independent and specialist advice on the bulk annuity and consolidation markets for the benefit of all involved.

See <https://www.k3advisory.com/> for more information.

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