# ABI response to AS TM1 v5.1 Consultation

*November 2023*

***The UK insurance and long-term savings market and the ABI***

*The Association of British Insurers is the voice of the UK's world-leading insurance and long-term savings industry.*

*A productive and inclusive sector, our industry supports towns and cities across Britain in building back a balanced and innovative economy, employing over 350,000 individuals in high-skilled, lifelong careers, two-thirds of whom are outside of London. Our members manage investments of £1.6 trillion, pay over £17.2 billion in taxes to the Government and support communities and businesses across the UK by enabling trade, risk-taking, investment and innovation.*

*We are also a global success story, the largest sector in Europe and the fourth largest in the world. The ABI represents over 200 member companies, including most household names and specialist providers, giving peace of mind to customers across the UK.*

## Executive summary

- We welcome the opportunity to respond to this consultation. Firms need certainty of timelines to plan effectively, so it is crucial that industry is given sufficient notice to implement any changes. An April 2024 deadline will already prove very difficult for firms, and they need to know as soon as possible what changes will need to be made. Industry requires time to make amendments and it could lead to poor outcomes if firms were advised of a change in February, that takes effect from April, especially with so many upcoming changes and outputs to be delivered. Next April is set to be a particularly busy time for pension providers, given the significant changes that are due to land, including the abolition of the Lifetime Allowance. To ensure industry can meet regulatory deadlines without the risk of having to reprioritise other projects, we call on the FRC to provide urgent clarity of any necessary changes.
- From a customer perspective, consideration must be given to how this information will be shown and interpreted on various platforms such as Pensions Dashboards and Annual Statements. As a result of the change in volatility rates, and the increased volatility in the market, funds may pass into higher groups. This means customers will see different information that will be confusing if the rationale is not made clear to them. This will also be particularly complex for firms to explain to customers that may not have a working knowledge of the pensions market. Further to this, given that these assumptions are used across multiple different customer communications, it is important that the FRC remain consistent with FCA requirement R 2.3(i) as well.
- We are broadly happy with the accumulation rate increases proposed for the first three volatility groups, although we believe that group four does warrant an increase. However, we understand the rationale set out by the FRC in regards to keeping it at 7%.
- For companies with fewer funds to manage, the increase in rates should cause no issues, but this is not the case for firms with larger volumes. Therefore, the varying degrees of impact across firms should be considered when setting implementation deadlines.

**Question 1: Do you agree with the proposed change to accumulation rate for volatility group 1 (from 1% p.a. to 2% p.a.)? If not, what alternative accumulation rate do you think would be appropriate for this group? Please provide supporting evidence for any alternative view.**

1. The rationale outlined seems reasonable, and the general increase of 1% on three of the four volatility bands reflects the majority industry view of expected returns. Whilst we understand the rationale behind this change, we think that this looks more towards medium-term as opposed to long-term changes. However, we appreciate the view of the FRC may benefit the consumer as they tend to have a shorter-term view.

2. From a customer perspective, we are concerned with how this information may be shown and interpreted on platforms such as Pensions Dashboards and Annual Benefit Statements. The proposed changes to accumulation rates reflect a jump between volatility groups. There has been significant volatility in certain sectors over the last 12-18 months meaning overall volatility has increased. As a result of this, funds – particularly those with fixed interest and bonds – may pass into higher groups. Customers viewing this data may find this shift confusing and concerning if the rationale is not clear, and it will be complex for firms to explain.

**Question 2: Do you agree with not amending the accumulation rate for volatility group 4? If not, what alternative accumulation rate do you think would be appropriate for this group? Please provide supporting evidence for any alternative view.**

3. We do not agree despite there being a clear rationale. Amending the preceding volatility groups gives the impression that group 4 rates are a cap above which growth rates cannot pass.

4. Given that this group will contain higher risk funds, it seems appropriate to administer some sort of rise in the rates. But we appreciate that it may not be appropriate to raise the rate by a full percentage point, therefore we are suggesting a raise from 7% to 7.5% to maintain compression as is currently being suggested.

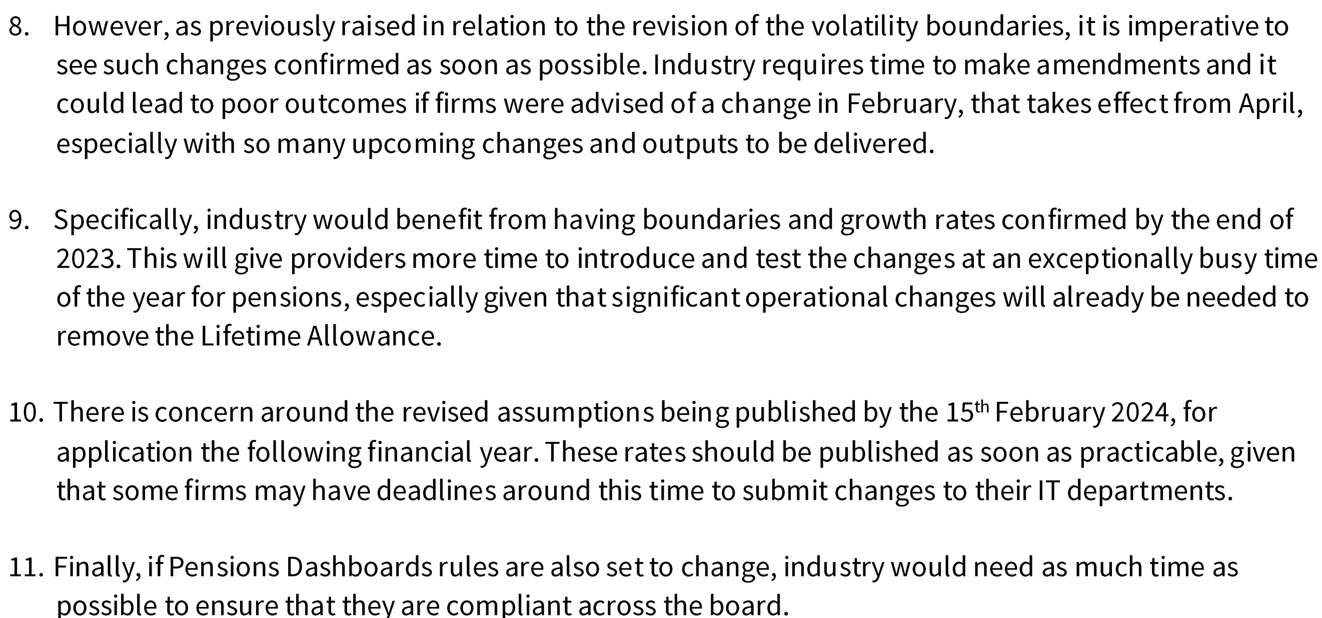
5. However as stated, the rationale of the proposal is clear, and we would understand if the FRC were reluctant to set rates at multiples rather than full percentages if they foresaw this would create unreasonable development costs for providers.

**Question 3: Do you have any other comments on the proposed accumulation rates as set out above?**

6. When looking at the overall impact of the changes and implementation dates, the varying degrees of impact should be considered. For companies with fewer funds to manage, the increase in rates should cause no issues, but this is not the case for firms with larger volumes. The changes and implementation dates set need to be achievable for all firms, regardless of funds under management.

**Question 4: Do you agree with the proposed effective date of 6 April 2024?**

7. We are broadly happy for the changes to take effect from 6 April 2024, given that the proposed effective date is in line with the intended annual update.



8. However, as previously raised in relation to the revision of the volatility boundaries, it is imperative to see such changes confirmed as soon as possible. Industry requires time to make amendments and it could lead to poor outcomes if firms were advised of a change in February, that takes effect from April, especially with so many upcoming changes and outputs to be delivered.

9. Specifically, industry would benefit from having boundaries and growth rates confirmed by the end of 2023. This will give providers more time to introduce and test the changes at an exceptionally busy time of the year for pensions, especially given that significant operational changes will already be needed to remove the Lifetime Allowance.

10. There is concern around the revised assumptions being published by the 15th February 2024, for application the following financial year. These rates should be published as soon as practicable, given that some firms may have deadlines around this time to submit changes to their IT departments.

11. Finally, if Pensions Dashboards rules are also set to change, industry would need as much time as possible to ensure that they are compliant across the board.

**Question 5: Do you agree with our impact assessment? Please give your reasons for your response and estimates of costs where possible.**

12. We agree with the factors outlined in the assessment. Having tabulated parameters such as the upper and lower growth rates for volatility, this shows that the implementation costs are reasonable. However, this would be subject to members receiving formal sign-off from providers, both internal and external.

13. But it is important that other industry changes are considered alongside this. Looking to wider industry, if significant costly change is set to happen elsewhere (such as with Pensions Dashboards), then early sight of these amendments would be welcomed to ensure budgets allow for implementation. We would therefore urge the FRC to join up with other regulatory bodies to ensure scheduled changes are aligned.

14. Overall, we do not expect the cost of implementation to be significant, therefore cost is unlikely to be an issue.