Powering UK growth through Pensions

February 2025

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

The ABI is the voice of the UK's world-leading insurance and long-term savings industry, which is the largest sector in Europe and the third largest in the world. We represent more than 300 firms within our membership, including most household names and specialist providers, providing peace of mind to customers across the UK.

We are a purpose-led organisation: Together, driving change to protect and build a thriving society. On behalf of our members, we work closely with the UK's governments, HM Treasury, regulators, consumer organisations and NGOs, to help ensure that our industry is trusted by customers, is invested in people and planet, and can drive growth and innovation through an effective market.

A productive and inclusive sector, our industry supports towns and cities across Britain in building a balanced and innovative economy, employing over 300,000 individuals in high-skilled, lifelong careers, two-thirds of whom are outside of London. Our members manage investments of £1.4 trillion, contribute £18.5 billion in taxes to the Government and support communities and businesses across the UK.

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Executive summary

- **The pension money held by insurers and long-term savings providers can do even more to power both UK growth and savers' pensions.** This will need different measures for two fundamentally different types of pension arrangements and providers: annuity insurers who look after lifelong guaranteed pensions either for individual buyers or for employers insuring their defined benefit (DB) pension scheme liabilities (known as "Bulk Purchase Annuities"); and long-term savings providers who seek to grow individual savers' defined contribution (DC) pension pots before they are turned into an income.

Annuity providers

- **New data from ABI members who provide bulk and individual annuity policies show that in 2023 they invested 65% of their assets (£178billion) in the UK[1].** This amount is set to grow, following another significant year in 2024 with £47billion in total transactions, covering c341,000 DB scheme members[2]. In comparison, estimates from the Pensions Policy Institute suggest 55% of the private sector DB pension scheme assets are invested in the UK[3]. Annuity providers invest a substantial portion of this money in UK housing and infrastructure, including regeneration projects and renewable energy. 18.7% (£51billion) of their total assets are invested in UK corporate bonds and a further 18.6% (£51billion) in UK mortgages and loans. This supports projects such as offshore North Sea wind farms[4] and the Thames Tideway Tunnel[5], as well as UK social housing projects and equity release mortgages, where capital released in turn supports a range of sectors in the UK and creates jobs.[6] 17.5% (£48billion) of their total assets are invested in UK gilts, which support government's day to day spending and long-term investment[7].

- **This asset allocation is entirely appropriate for the age profile of the scheme members annuity providers are insuring, and the guarantees that need to be fulfilled.** For example, in 42 bulk annuity transactions advised by leading consultancy Lane Clark & Peacock (LCP) last year, the average age of the pension scheme members was 67. 39% of the scheme members in these transactions were over 70 years old, and only 6% were under 50. The pension payments to these members are typically fixed, must be made at regular intervals (usually monthly), increase with an inflation measure, and must be paid until the scheme member and any dependent die. This illustrates why bulk annuity insurers need highly dependable, long-term fixed income streams. For individual retail annuities, the same is true, though with more choice over the shape of the income. By definition, retail annuity customers are above minimum pension age and most commonly purchase at age 65, with a gradual shift to older ages[8].

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[1] ABI experimental data on annuity providers' asset allocations (2023). This is the first time this data has been collected, and seeks to capture all investments backing annuity business, both individual and bulk annuities. It only covers ABI members as of 2023, and so does not include coverage of the whole market.
[2] ABI data on BPA 2024 transactions, published February 2025. This covers the whole of the market, bar Utmost who is a recent new entrant.
[3] 55% is derived from the PPI's DB assets estimation: £193billion invested in UK assets and £410billion invested in UK gilts, out of £1.1trillion assets total.
[4] Financed by Just Group, Aviva and Pensions Insurance Corporation plc, among others
[5] Financed by Rothesay and Pension Insurance Corporation plc, among others.
[6] Equity Release Council analysis, 2022, shows that cash accessed by equity release has supported nearly £3.8billion in UK gross value added and generated more than 45,000 jobs.
[7] One of the Treasury's principles for fiscal policy is to move towards only borrowing for investment.
[8] ABI statistics, 2024, summarised here.

- **We are committed to helping our sector increase investment in productive assets in the UK**. We have produced "how to" guides for government and Local Authorities and Housing Associations to help them design their green infrastructure investment opportunities such that they fit with the regulatory framework for annuity providers, which will in turn help to secure their funding. We are also working closely with government and the PRA on ensuring the reforms to Solvency UK are fully leveraged, so that the pace of investments is accelerated. This will help achieve our sector's £100billion commitment to invest in green and good assets in the UK.

Defined contribution schemes

- **DC pension schemes invest around 23% of their holdings (£236billion) in the UK.** This is split between gilts (£118billion), UK listed equity (£51billion), UK corporate bonds (£36billion), UK property (£21billion) and UK private equity and alternatives (£10billion)[9]. Given the typically much younger demographic and type of pension (typically with no guarantees), around 55% of total assets are invested in equity, though a smaller proportion of that is invested in UK listed equities due to the size of the UK's market capitalisation and the historically lower performance of the UK stock market compared to international peers.

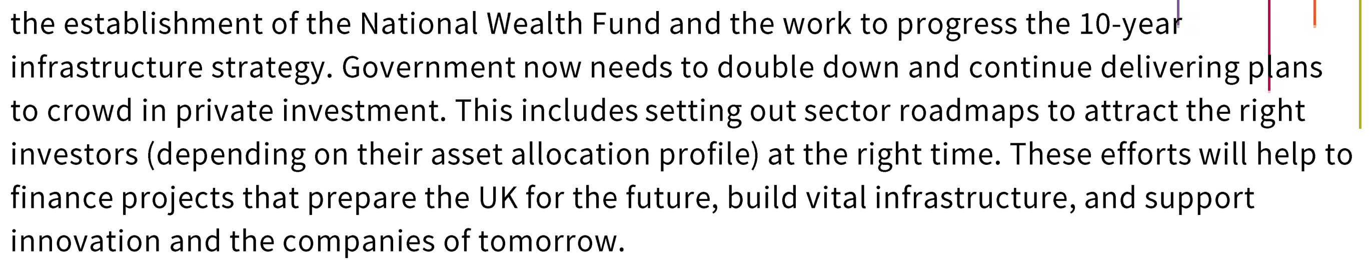
- **For DC investment, many positive and market-changing developments are already in train**. Crucially, if designed effectively, the Value for Money (VfM) framework should shift the pension market's culture from a fixation with costs towards a focus on long-term value, enabling more investments in private assets to deliver better outcomes for savers. Proposals arising from the Pensions Investment Review to require schemes to achieve a certain level of scale could feature in this year's Pension Schemes Bill. There are a range of views about how far this will achieve the government's objectives, but scale can be an enabler of efficient and diversified investment. DC providers' drive to invest more in growth companies and innovation was also reflected in the Mansion House Compact signed by many of the biggest long-term savings providers in July 2023. Progress towards delivering on the ambition of 5% unlisted equities in default funds by 2030 has been clear in the first year of the Compact, with more expected in subsequent years. The introduction of Long-Term Asset Funds (LTAFs) has enabled more private investment and several LTAFs have been launched.

Powering UK growth through Pensions

- **We can do even more to invest pension money in the UK.** The UK's fundamental advantages have not been lost on the top global CEOs, who rated the UK the second most important destination after the US. To attract even more UK investment from UK pensions, government should continue with their vital plans to deliver the industrial strategy and complete their ambitious planning reforms.

- **Policy, investment, tax and legal predictability will give investors the confidence to place more money in the UK.** Initial steps to deliver on this have been very encouraging, particularly

[9] Figures derived from estimates in PPI, 2024, Pension schemes assets estimates



the establishment of the National Wealth Fund and the work to progress the 10-year infrastructure strategy. Government now needs to double down and continue delivering plans to crowd in private investment. This includes setting out sector roadmaps to attract the right investors (depending on their asset allocation profile) at the right time. These efforts will help to finance projects that prepare the UK for the future, build vital infrastructure, and support innovation and the companies of tomorrow.

- Bulk annuity insurers and long-term savings providers are proud custodians of the savings pots and retirement incomes of UK citizens. We are ready to work with government to build a better UK so all of society can reap the benefits.

Section 1: Where do UK pensions currently invest?

1. The PPI estimates that the total size of UK pension assets in late 2023 was approximately £2.96 trillion. Private and funded public sector DB schemes account for the bulk of it (55%), while DC pensions (workplace and individual) hold about 35%[10] and annuity providers roughly 10%. This is forecast to change significantly over the next decade.

2. The BPA market is projected to have insured almost £1 trillion of DB scheme liabilities by the early 2030s and the DC workplace market is projected to hit £1 trillion by the end of this decade. In 2024, an additional £47billion from DB pension schemes was insured with BPA providers, covering 341,000 pension scheme members[11], and over £51billion flowed into DC pension schemes in the first three quarters[12]. By 2030 the Local Government Pension Scheme is estimated to grow from the current £392billion to £500billion. DB pension schemes in the private sector will be even more mature, meaning that scheme members will be even older. A significant number of DB schemes will have wound up, with their liabilities transferred to insurers or, depending on their funding, the emerging superfunds market.

3. Pension and annuity providers are big investors in the UK and the growth of these markets means this investment will accelerate over time.
   - **Data collected from ABI individual and bulk annuity** members from 2023 show that total assets stood at approximately £274billion, with c£178billion (65%) estimated to be invested in the UK, mainly in corporate bonds, mortgages and loans, and UK Government debt[13].
   - **Private sector defined benefit schemes** hold approximately £603billion (55%) of their assets in the UK[14].
   - **DC schemes (including workplace and non-workplace)** are estimated to have total assets of £1,044billion, with £236billion (22.6%) invested in the UK[15].

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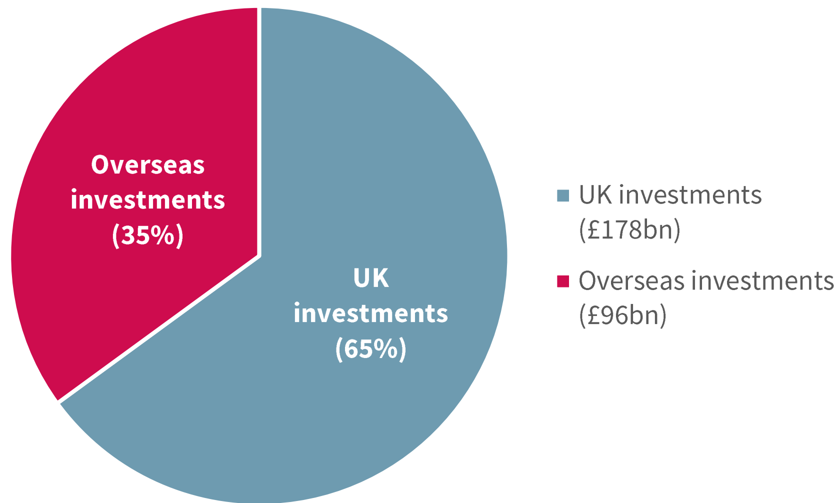
[10] Contract-based workplace hold £0.31 trillion UK assets, whilst trust based workplace hold £0.25 trillion UK assets
[11] ABI data on BPA 2024 transactions, published February 2025
[12] ABI Asset-based workplace data for Q1-Q3 2024 inflows into master trust schemes, contract-based schemes and single trust based schemes.
[13] ABI experimental data on annuity providers' asset allocations (2023). This is the first time this data has been collected, and seeks to capture all investments backing annuity business, both individual and bulk annuities. It only covers ABI members as of 2023, and so does not include coverage of the whole market.
[14] Chapter two, 55% is derived from the PPI's DB assets estimation: £193billion invested in UK assets and £410billion invested in UK gilts, out of £1.1trillion assets total.
[15] This include single trust-based schemes; figures according to PPI report, 2024, Pension schemes assets – how they are invested and how and why they change over time. Estimated total £1,044billion, with £118billion in productive assets and £118billion in UK gilts.

Figure 1: UK vs Overseas investments for each type of pension

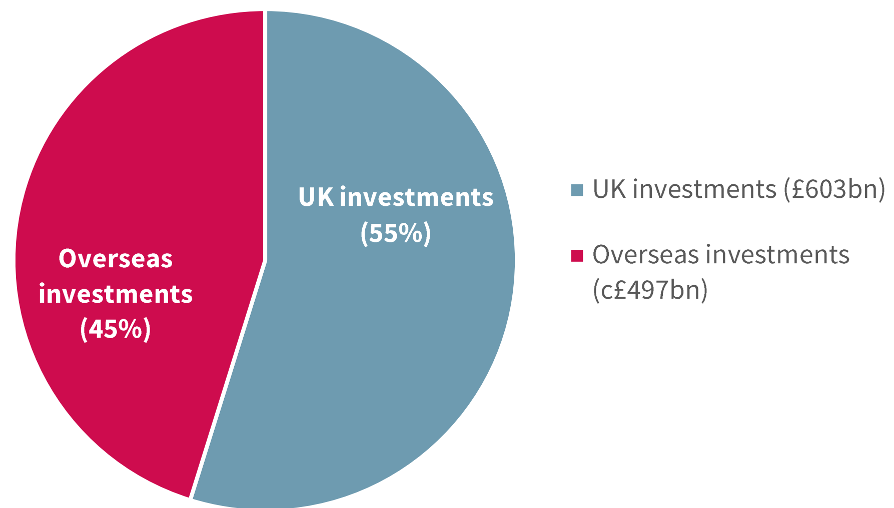
Investments by region: annuity providers

Figures based on ABI experimental data on annuity providers' asset allocation in 2023



Investments by reg
Private sector DB s
assets by region

Figures based on PPI,
Pension Schemes Asse



Investments by region: DC schemes

Figures based on PPI, 2024, Pension Schemes Assets

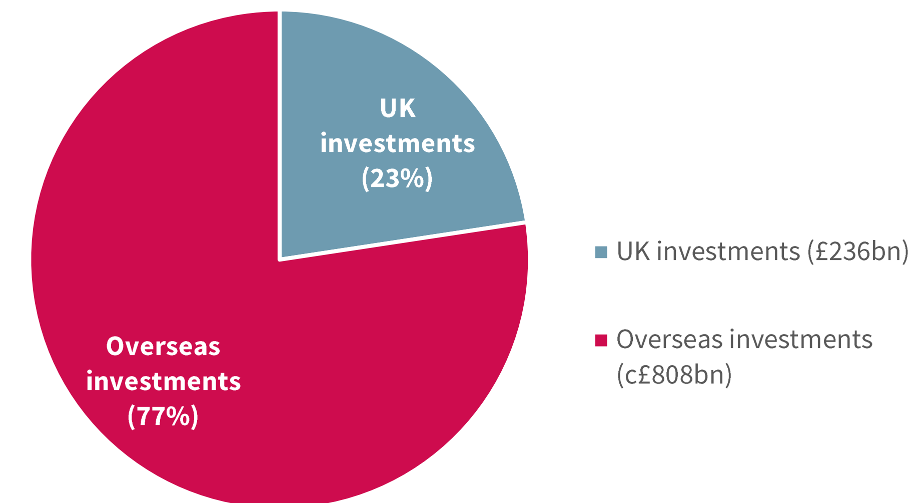
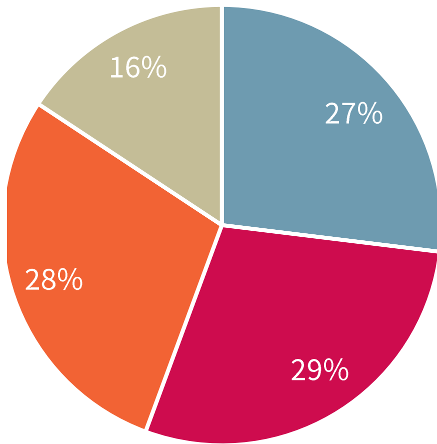


Figure 2: Breakdown of UK investments for each type of pension

Breakdown of UK investments: annuity providers

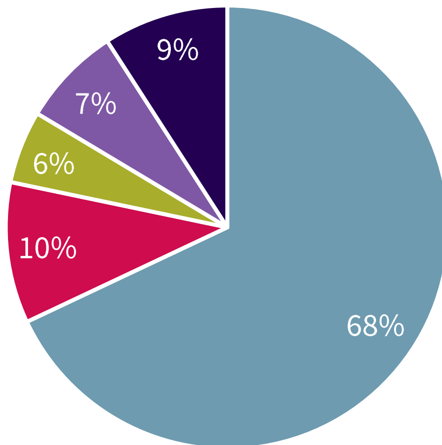
Figures based on ABI experimental data on annuity providers' asset allocations (2023)



- UK Government bonds (£48bn)
- UK Corporate Bonds (£51bn)
- UK Mortgages and loans (£51bn)
- Other UK investments (£28bn)*

Breakdown of UK investments: private sector DB schemes

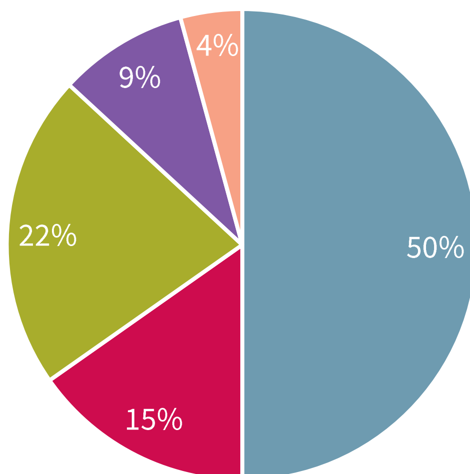
Figures based on PPI, 2024, Pension Schemes Assets



- UK Government bonds (£410bn)
- UK Corporate bonds (£62bn)
- UK Equities (£32bn)
- UK Property (£44bn)
- UK Private equity and alternatives (£55bn)

Breakdown of UK investments: DC schemes

Figures based on PPI, 2024, Pension Schemes Assets



- UK Government bonds (£118bn)
- UK Corporate bonds (£36bn)
- UK Equities (£51bn)
- UK Property (£21bn)
- UK Private equity and alternatives (£10bn)

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* This includes structured notes, collateralised securities, cash and deposits, Investment funds Collective Investment Undertakings (IFCIU) and UK property

Section 2: Why do investments vary by type of pension?

Pension providers with known, fixed liabilities (BPA, annuity and DB pension schemes)

4. The government's Pension Investment Review has led to extensive discussions about how DC pension schemes invest, but less commentary has been devoted to the investments of private sector DB pension schemes and annuity providers who provide derisking solutions to them.

5. Of the 8.8m members in private sector DB pension schemes, only 8% are "active", that is, are still accruing benefits, and only 4% of private sector DB schemes are open to new members. The remaining 92% of private DB scheme members are evenly split between pensioners and deferred members (who are no longer accruing benefits). Figures shared with the ABI by LCP for this report show that the average age of scheme members in insurer buy-ins they advised on was 67. This rose to 75 for pensioner members only, and was still high at 57 for deferred members. Of the total 108,427 members covered by LCP-advised transactions in 2024, only 6% were under 50.

6. This means that for the vast majority of schemes, their liabilities to scheme members are known, and the long-term assets backing these liabilities need to have very predictable cashflows. These liabilities need to be paid continually at precise intervals in pre-defined amounts until the scheme member and any dependent dies. That is why annuity providers invest in long-term assets with predictable and stable cashflows, over a long period of time. For individual retail annuities, the same is true, and insurers' investments are made from both their individual and bulk annuity business. This presents a very different need from DC and open DB pension schemes (where new employees constantly join the scheme), which are focused on maximising their risk-adjusted returns through a diversified portfolio. It does not mean that annuity providers do not have important roles to play in productive asset investment – they very much do – but the structure of that investment will typically differ from those sought by DC schemes.

7. Annuity providers are regulated under the new Solvency UK regime, so their investments need to reflect the requirements of that framework. To apply the Solvency UK Matching Adjustment (MA), which provides a benefit to an annuity provider's balance sheet, an asset must be able to generate fixed or 'highly predictable' cash flows. Annuity providers will typically seek investment grade assets with such cash flows, which offer a modest return over the risk-free rate. The changes to Solvency UK (which came into effect in stages during 2024) are predicted to unlock £100billion over the next 10 years from these providers. The ABI's Investment Delivery Forum, set up in 2024, brings together the major insurance and long-term savings firms with an interest in large-scale infrastructure investment. It was formed to help ensure that the capital held by insurers and unlocked by the Solvency UK reforms could be invested in green and good projects.

8. Debt instruments that are investment grade and generate fixed or highly predictable cash flows are ideal assets for annuity providers and support growth. Corporate bonds allow companies to raise the capital they need to finance specific projects, enabling them to grow, whilst offering attractive cash flows for annuity providers and DB pensions schemes to meet their promises to policyholders and pension scheme members. Similarly, gilts support government's day to day spending and long-term investment.

9. New ABI data shows that our annuity provider members have a significant home bias in their investment strategies. In 2023, £178billion (65%) of total assets were invested in the UK, in corporate bonds (18.7%, £51billion), UK Government gilts (17.5%, £48billion), mortgages and loans (18.6%, £51billion) and other UK investments (10%). These assets include major UK infrastructure investments. For example, annuity providers are funding the Thames Tideway (London's super sewer

to prevent future sewage spills), Wirral Waters One (the UK's largest urban regeneration project), Hornsea One and Two (the world's largest offshore wind farms), as well as other vital national infrastructure, such as social housing[17]. In 2024 a further £47billion of DB pension liabilities were insured by bulk annuity providers, covering 341,000 people. This adds to the 1.74 million people who already had their benefits secured by bulk annuity insurers before the start of 2024[18].

10. The retail annuity market has also been growing in recent years. In 2024, the number of annuity sales increased by 24% to 90,000, reaching a ten-year high. While customers have more choice over the shape of the income in a retail annuity – for instance, it does not need to increase with inflation, can be single or joint, and can include optional guaranteed terms or value protection – it is still a guaranteed income for life, and the investments must match that promise. The age profile is the same as or older than the bulk annuity market – by definition, customers are above minimum pension age and they most commonly purchase an annuity at age 65, with a gradual shift to older ages in recent years[19].

DC providers

11. In the 1990s and early 2000s, it was typical to have most equity exposure to domestic markets. But in the last two decades, there has been a shift towards geographic diversification with investment increasingly being allocated broadly in line with a market's weighting in global indices. Accordingly, only a small proportion of DC pensions are typically invested in UK equities.

12. Decreasing home bias in investment allocations has happened in all other major markets[13]. Over the last two to three decades, this decreasing home bias trend has been evident in Canada, US, Japan and Australia. However, the home bias in the UK is lower than in other jurisdictions, especially in relation to the size of the capital market.

13. The reason for the UK having a lower home bias than other jurisdictions is the difficulty for providers in justifying an increase in exposure to UK equities because of the UK's underperformance in recent years, and the current economic challenges which impact expectations for the future. These challenging economic conditions affect the risk return assessments of investors and, along with the underperformance of UK equities, explain why the home bias is lower than in other countries. Indeed, default funds with the strongest performance over the last five years all have lower than average exposure to UK equities, according to Corporate Adviser data[15].

14. If this underperformance is addressed by a credible economic plan, investors will adjust their risk return expectations and this will be reflected in the demand for UK investments. The UK government's consultation on an industrial strategy, and commitments for sector plans along with the new National Wealth Fund, are all very positive steps in the right direction.

15. The composition of the UK listed market is another factor which has resulted in a low domestic bias for listed equities of DC schemes. The listed UK market has a high representation of oil and gas, mining and tobacco markets. This can be in tension with DC schemes' mandates and savers' preference that are more impact or sustainability focused and ESG-driven. This tension would have to be managed to reduce its constraining effect on investment in UK listed equities.

16. Investment in private assets in the UK (and globally) is held back primarily by the DC market's current fixation with costs. This is being addressed by the VfM framework, and the ABI and others have suggested other measures, including requiring employers and, especially, their advisers to focus on

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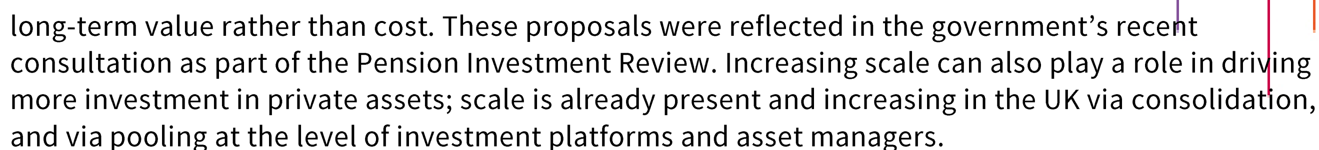
[17] Investment Delivery Forum,

[18] ABI data on 2024 BPA transactions, published February 2025. The 2024 data covers all BPA providers other than Utmost, a new entrant. The total number of lives covered does not include all figures from L&G.

[19] ABI statistics, 2024, summarised in Retirement data – the bright spots, puzzle and policy solutions, Mallowstreet.



long-term value rather than cost. These proposals were reflected in the government's recent consultation as part of the Pension Investment Review. Increasing scale can also play a role in driving more investment in private assets; scale is already present and increasing in the UK via consolidation, and via pooling at the level of investment platforms and asset managers.

17. Increasing statutory minimum contributions for DC schemes would also increase the pool of capital available to invest in private assets in the UK. A roadmap with a clear path on how contributions will be increased is needed to address the looming pension crisis, offer certainty to business and individuals and increase investment over time.

18. The DC market will continue to evolve. DC schemes will mature and will be expected to provide a guided retirement product for life. The generations who were automatically enrolled will start to retire in greater numbers, and with larger and larger pots. As this happens, the investment profile may change again, and further attention will be needed by schemes so that they invest to meet their members' evolving retirement needs.

Case study: Infrastructure

Infrastructure is where much of the increased exposure to UK assets is likely to come from and where the need is greatest. The funding gap to meet the requirements for energy, transport and housing infrastructure by 2030 was estimated at £615billion in November 2023. The good news is that infrastructure is regarded as a core part of the asset mix of annuity providers, and is attractive to DC investors too.

Several challenges need to be overcome before we see growth in UK infrastructure:

- **Reduced supply of investment grade opportunities**: As annuity providers use their investments to back existing liabilities, they typically require investment grade assets for the majority of their portfolios. The high-interest rate environment has increased the cost of funding these projects and reduced the supply of appropriate opportunities, so it is vital that mechanisms such as the National Wealth Fund are used effectively to 'de-risk' projects and create financing models that are equivalent to investment grade.
- **Little visibility of investment pipeline opportunities**: Although the UK has set ambitious targets for growth, clean energy and the Net Zero transition, we do not yet have visibility of which projects will require private sector financing and when. Sector-specific roadmaps and a national transition plan will be vital to show how the government's targets will be delivered, especially where there are inter-dependencies (for example where new energy sources will rely on grid connections).
- **Planning reforms**: Planning approvals can cause large delays in the time that projects are able to begin paying returns on investment, reducing their attractiveness to investors. For example, while specific technologies may require equity investment at the outset, once they are ready to be deployed there is a role for Local Authorities and local planners to help build scalable solutions to financing projects, that create secure, stable revenue streams to meet debt funding requirements. The UK government's focus on growth and the proposed changes we expect to come forward through the Planning and Infrastructure Bill, and the 10 year infrastructure strategy, are opportunities to give investors more stability and confidence in the key infrastructure projects where government would like to see investment directed.
- **Knowledge and capability gaps:** Sometimes, there is a disconnect between the ambition of local authorities' investment opportunities and their investment capacity and capability. We are already engaging with regional bodies and combined local authorities through the ABI's Investment Delivery Forum, to bridge the knowledge and capability gap between those developing investment propositions and institutional investors. The aim is for both parties to better identify what type of investment best suits different stages of a project's lifecycle, and how investment risk can be optimally shared at different stages of the project.

To help encourage a pipeline of investments in green and good investments, the ABI's Investment Delivery Forum has been working with key regional decision-makers. This work focuses on understanding the pipeline of opportunities and advocating for the role of insurers as investors to unlock their large pools of capital. We have also been working with the National Wealth Fund and the Scottish National investment Bank, particularly looking at the role of blended finance.

The UK's governments have a role to play and the initial steps taken are encouraging. For instance, the UK government's plans to simplify the consent process for major infrastructure, modernise planning committees and increase local authorities' capacity, including via the new National Wealth Fund's advisory services, should help address the challenges above. It is also encouraging that the government has now committed to publish growth-driving Sector Plans along with the Industrial Strategy, as well as a 10-year infrastructure strategy. It should be noted that there are already infrastructure investment plans in place for Scotland, Northern Ireland and Wales.

Section 3: How to improve the UK's attractiveness to investors

19. Increased investment in the UK hinges on the attractiveness of the UK which means securing the confidence of pension schemes and other investors. Crucial to this is ensuring political and regulatory stability, setting out a positive and realistic economic plan and encouraging and supporting private investment. We therefore welcome the UK government's laser focus on growth, and its commitment to drive the positive change needed and ensure its delivery. We particularly welcomed the government's focus on stability, predictability and investment in the Autumn Budget of 2024, and the Chancellor's recent growth speech, which resonates with our recommendations.

Ensure political and regulatory certainty and stability

20. Pension providers invest their customers' money over many decades. The long-term nature of these investments requires a long-term strategic vision that stands the test of time. This means government ensuring contractual certainty, a credible regulatory regime (including of utilities, such as water), and clear policy direction, for example on electric vehicles and residential property building. It also means a reasonably predictable tax policy, and the government's corporate tax roadmap, published in October with the Autumn Budget, is very welcome.

21. Confidence in infrastructure delivery, which could take many years, is also of the upmost importance. This is key to creating certainty and encouraging investment. Where possible, cross-party consensus should be sought on these projects, so that decisions on infrastructure projects are not overturned by future administrations.

22. Upcoming pension policy changes will also need to be sequenced in the right way to be effective and support investment in private markets, including in the UK. The government must prioritise, as well as consider and communicate, the sequencing of the various, and sometimes competing, pension policy initiatives. For example, if the government were to go ahead with introducing a minimum size (AUM) per DC provider (under the Megafunds proposals), it will need to set out how the policy interacts with the VfM Framework and small pot consolidation, and how to deliver it in a logical and achievable order.

Focus on the long-term economic plan

23. To fundamentally change the economic conditions, the UK's governments should continue to improve the factors that make the UK a good place to live and invest, with enough quality housing, infrastructure and a skilled workforce.

24. We therefore welcome the launch of Skills England to boost the nation's skills across the UK economy, the government's plans to reform the planning system, and to launch the National Wealth Fund to help develop the UK's infrastructure and transition to net zero. The government should also produce a transition plan to net zero and sector road maps to attract investors to build projects that prepare for the future.

Incentivising productive asset investments by insurers

25. UK insurers are subject to the Solvency UK prudential regime, overseen by the PRA, and need to ensure their investments reflect the nature and requirements of that regime. The Matching Adjustment is a critical element of the regime, as it incentivises annuity providers towards investments that are compatible with it. Our industry has engaged closely with the PRA to explore methods by which

regulatory approval of 'Matching Adjustment eligible' investments may be accelerated, and we encourage the continuation of this close engagement.

26. There are two potential mechanisms being developed which aim to meet this objective of accelerated investment. The first is the **Matching Adjustment Investment Accelerator**, which is intended to speed up the investment process by allowing firms to invest in eligible assets with new risks and / or features prior to receiving PRA approval. This is a significant priority for our industry, and it is expected that the PRA will consult on this proposal later this year.

27. The second mechanism is a **Matching Adjustment Sandbox**, with the aim to expand the PRA's definition of Matching Adjustment eligible assets to the wider definition enabled in legislation. This mechanism complements the Matching Adjustment Investment Accelerator, and we would like to see both changes implemented.

Encourage and crowd-in investment

28. The UK government has recognised that co-investment is needed to achieve its objectives for growth and for increasing UK investment in priority areas. Options for co-investment and blended finance models, on which HMT has consulted separately, will be central to achieving this and changes to fiscal rules may be needed to support these investments.

29. Private market investments will be one of the primary routes through which pension and annuity providers can increase investment in UK assets. Much progress has been made to increase DC investment in private capital, reflected in the ABI's Mansion House Compact update. Schemes have secured resourcing, rallied client support, and undertaken research and developed investment solutions to increase their allocation to unlisted equities. Since this was published, several providers have announced new funds and changes to funds with increased private market exposure. But, clearly, more needs to be done.

30. The UK government and public institutions such as the British Business Bank should build on the approaches set out in the LIFTS consultation to encourage pension schemes to increase the range of assets they invest in. These could include mechanisms to off-set investment management fees, which would help address the cost barrier to DC investment in private assets, as they typically require higher and performance-based fees.

31. We welcome the newly announced British Growth Partnership, supported by a cornerstone government investment, aimed at encouraging more UK pension fund investment into the UK's fastest growing, most innovative companies.

32. The UK's governments need to continue to develop plans and deliver on scaled up public/private partnerships to improve business cases for investment and produce more investment grade infrastructure projects, with predictable steady returns. This is especially the case to match insurer's long-term annuity liabilities, and will also make investment more attractive to growing DC businesses.

33. Project owners - including local authorities or housing associations - need to utilise innovative (often brand new) investment models to unlock private sector investment for important infrastructure projects. The ABI, in conjunction with our members, produced and shared an introductory guide to assist officials in Local and Combined Authorities, Housing Associations and regional partners who are looking to raise funding from institutional investors for green infrastructure projects. It focuses on using insurers

as a potential source of funding and details some of the specific requirements of insurers when they are making investments.

34. Although many barriers to private market access have been tackled, several operational and regulatory challenges are being highlighted. We supported the recent work conducted by the BVCA, which sets out outstanding barriers and recommendations to address them and increase investment in private capital, and we fully endorse those recommendations.

Crowding in: Exploring the usage of guarantees

- The ABI's Investment Delivery Forum has called for the National Wealth Fund to explore guarantees. Since annuity providers must lend to highly creditworthy enterprises, the UKIB, British Business Bank and National Wealth Fund should use their capital to back financial instruments, such as debt guarantees, to unlock the volume of investment needed from the private sector, rather than investing directly. That is why we were pleased to see that the National Wealth Fund will have an expanded suite of financial instruments such as performance guarantees and trialing new blended finance solutions, as well as a clear commitment to ensure crowding in, not out, private investment. These may also be attractive to DC providers.
- The amount of money that needs to be raised to support guarantees is a fraction of the amount needed to make full direct investments. According to the ONS, this is true even if the whole project comes onto a government's balance sheet. Whilst guarantees shift risk from the private sector to the public sector, an equitable division of risk and return could be achieved by coupling guarantees with a cap on the investment return.
- Guarantees should only be necessary in the period before technologies are proven and track records established, or during the construction phase of new infrastructure whose useful life will last decades.
- The government will have skin in the game and ability to create the conditions such that the guarantees will rarely be called upon. Where government pulls the levers that help determine the success or otherwise of a guaranteed project (e.g. the government sets the rules about electric vehicle adoption and internal combustion engine phase out and therefore the pace at which an electric vehicle charging network is needed), they are well placed to ensure the guarantee is less likely to be called. Through our Investment Delivery Forum, we produced an example case study with the Green Finance Institute on financing electric vehicle public charge points.
- The government already supports UK growth through the UK Export Finance guarantee programme which has been running for decades. This provides full credit risk guarantees where sometimes only 20% of exports are from UK companies. The National Wealth Fund could help to replicate this model in support of the UK's development.
- Guarantees are one tool to crowd in private investments. Other tools that should be explored are credit enhancements to construction packages including liquidity facilities, which would improve credit ratings and ensure such assets fit better with insurers' risk appetite. Similarly, the government should consider underwriting uninvestable risks, for example taking on some of the project risks that are unpalatable to insurers, such as decommissioning risk for a nuclear power plant.

Conclusion

Our sector is ready to play its part in the government's growth mission for the UK, and insurers and long-term savings providers already play a crucial role in boosting the UK economy. The data in this report on pension investment in the UK speaks for itself, with a significant home bias found in both annuity providers' investments DB schemes' investments, and a growing amount in DC investments. However, clearly more can be done, and needs to be done.

Investing more in UK assets depends on the UK's attractiveness to investors, and it is encouraging to see the UK governments' steps to provide certainty and stability, and encourage investment through setting strategy, reforms and financial instruments.

Encouraging crowding-in investment, explored above, will ultimately be key to encouraging greater investment in infrastructure projects up and down the UK. Pension reforms such as the new VfM framework should shift the cultural focus on cost, which can be a deterrent to investment in private assets. Changes to Solvency UK and the emerging role of LTAFs should also lead to greater private asset investment in the UK over the next decade, and the new National Wealth Fund has a vital part to play. In its work on growth, the government should consider further incentives to invest in the UK and build on proposals for partnerships between the public and the private sector.

About us

The ABI is the voice of the UK's world-leading insurance and long-term savings industry, representing over 300 member firms.

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