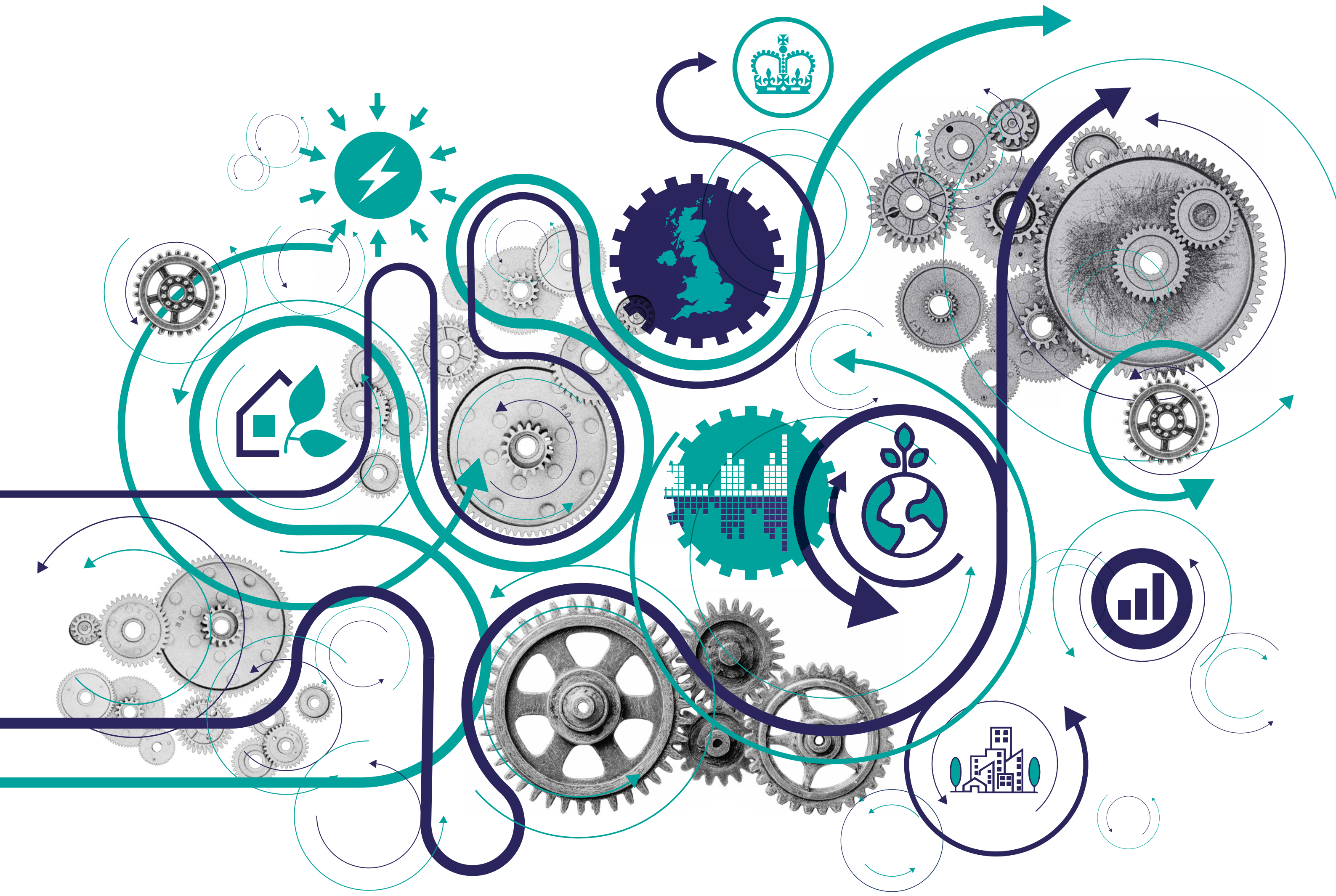
Redesign
Report #2

New Capital Consensus
A better investment system for all

Redistributing the Risk Burden

Collectivising risk for more productive investment



Redistributing the Risk Burden
A New Capital Consensus Workshop Synthesis
August 2026

Authors:
Dan Hedley, with the NCC Risk Transfer Working Group.

Reviewer:
Ashok Gupta. Francis Bell.

Audience:
Workshop attendees, trade associations, and HM Treasury, DWP, FCA and TPR officials engaged in pensions and life-insurance reform. This is a technical synthesis coupled with the Diversifying Investment Flows piece (Redesign Report #1); a public-facing piece will follow once the parallel Broken Link workshop report is complete.

Introduction

Risk-bearing lies at the heart of investment. From the basic principle that a saver invests in a business with the expectation that it will use that investment capital to create a profitable entity over a period of time that provides a return back to the saver. That investment underpins a series of risks. The risk that the business will fail, that no-one will buy the products or that its operations will be managed poorly. In turn the investment creates the possibility of growth and reward allowing a goods/service-providing operation to be built, meeting consumer needs, creating new jobs and benefitting the government through increased tax revenue. Thus the investor is rewarded through a return on their capital. Society is rewarded through a beneficial service. Government is rewarded for creating these conditions with increased tax revenue and growth.

Our pension funds and life insurers are naturally long-term investment vehicles that have a time horizon that should allow for illiquid, patient capital which need to be deployed to purposeful companies and projects. But our risk mindset in this country is currently out of kilter with our productive ambitions. We conflate long-term and short-term risk, push investors towards highly liquid, secondary trading (at heart, a zero sum game), and strand massive capital pools in low-return government debt at the expense of illiquid but higher-value investments which could create growth and provide better returns for savers.

In order to redesign our investment system to function properly as a social good, we need appropriate risk-bearing and risk pooling capital vehicles that can invest in long-term productive assets that benefit society.

Risk-bearing is a valuable activity. Like energy, it is needed to drive all productive capacity and without it we grind to a halt as a functioning economy. Too much risk, or energy, concentrated in a single place can create innate danger, and we see this with herding and sectoral risks which emerged during the LDI crisis and are beginning to emerge in US tech stocks and AI-heavy IPOs.

Whilst we cannot, and should not, attempt to remove risk from the investment system, we can manage its multiple incarnations with appropriate strategies, and shelter those who would struggle to bear it through intelligently built investment vehicles. As this redesign report explains, our ability to 'risk pool' and share collective risk and reward across our investment system has dramatically reduced in recent decades; even more concerning we have transferred much of that risk-bearing ability from institutions, with risk-management skills, to individuals, with no or limited risk-management skills.

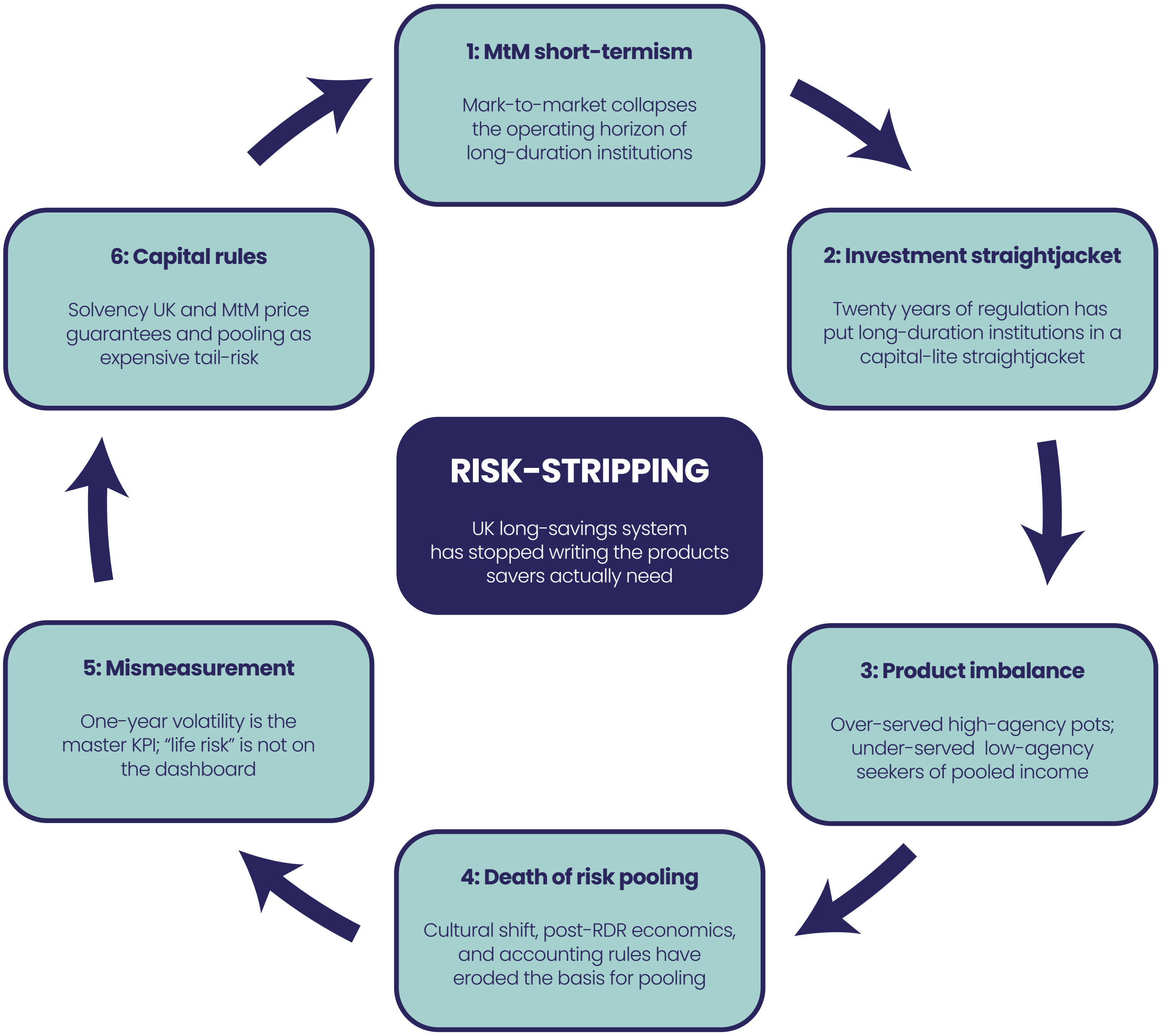
In order to redesign our investment system to function properly as a social good, we need appropriate risk-bearing capital vehicles that can invest in long-term productive assets that benefit society; we must address the great 'risk transfer' that has occurred and enable the collectivisation of risk and reward through vehicles like Collective Defined Contribution schemes and Superfunds that can also provide a steady income through retirement. But what is more, we must also end 'risk-shredding' which converts a single capital stream with a naturally long time-horizon into thousands of tiny one-day bets on volatility and market movements. The following paper identifies how we can begin to do that.

We must address the 'risk transfer' that has occurred and enable the collectivisation of risk and reward through vehicles like CDC schemes and Superfunds that can also provide a steady income through retirement.

Figure 1: The six mutually reinforcing problems that hold UK long-savings in a risk-stripping pattern. Each problem strengthens the next; address one in isolation and the system reverts.

The Six Mutually Reinforcing Problems

Each problem strengthens the others – they cannot be addressed in isolation



Read clockwise – each problem strengthens the next. Address only one and the system reverts.

Executive summary

Over the last two decades, the UK has unwound the system in which institutions bore long-term investment risk on behalf of savers. With-profits, deposit-administration and other guarantee-rich products have largely disappeared; DB pensions have closed and de-risked through Liability-Driven Investment; DC accumulation, including unit-linked, has become the dominant architecture, with the saver carrying the investment, timing, longevity and residual risk. The resulting product set fails to meet the needs of the vast majority of UK savers. Compared with the US, Canada, large parts of Asia and most of continental Europe, the UK is the outlier.

NCC's Risk Transfer workstream ran two workshops to interrogate the system and to test what could change it. The findings, on which the body builds:

1. **The starting question is misposed.** The right question is not "how do we make DC work harder?" but "who should bear long-term investment risk?" Once that is unpicked, the UK pattern — individuals carrying long-duration risk on a one-year volatility framework — looks markedly less defensible.
2. **Six mutually reinforcing problems hold the system in risk-stripping mode:** mark-to-market short-termism, an investment straightjacket on long-duration institutions, product imbalance, the death of risk pooling, mismeasurement of risk, and capital rules that price pooled, guarantee-rich product as expensive tail-risk. Reform must address them in concert.
3. **The product menu has been hollowed out from both sides.** For twenty-five years, the products that pool risk and make primary investment have faced regulatory headwinds, while individual, secondary-market exposure has had regulatory tailwinds. The Matching Adjustment carve-out is the existence proof that the framework, not customer demand, drives the supply of pooled long-duration products.
4. **Most UK savers are non-wealthy on any meaningful definition.** The Workshop 2 segmentation used £250k+ as the threshold for "wealthy"; £250k yields c. £10–15k p.a. of annuity income against an FCA / Association of British Insurers comfort line of £40–60k p.a. A realistic floor for self-sufficiency in retirement is closer to £500–750k.
5. **The pragmatic answer is vehicles.** We will not change UK or IFRS regulation within a timeframe that helps the economy. What we have to work with is Superfunds and CDC — vehicles that can pool risk and make primary investment despite Solvency UK. The near-term recommendation is to sponsor those vehicles into existence and operationalise the legislation already on the books.
6. **Mark-to-market and capital-charge reform remains the long-horizon load-bearing piece.** NCC's view is that, in the long run, the capital and accounting frame must be recalibrated for long-duration UK liabilities. This is the H3 reform that lets the other levers scale.

Why this matters now

The political weather is open. The Pension Schemes Bill will, for the first time, require DC schemes to offer a default post-retirement solution; the Mansion House compact and parallel Bank of England analytical work on long-horizon risk metrics are creating room for measurement reform.

Workshop context

NCC's Risk Transfer stream is one of three flagship workshops within the New Capital Consensus programme, alongside Diversifying Investment Flows and Broken Link. Each is designed to produce a tight technical synthesis, with a public-facing piece to follow once all three are complete.

Workshop 1 — 17 July 2025, Zoom. Facilitated by Andrew Curry (School of International Futures). The session used a pre-read pack covering Wendy Schultz on futures fluency, NCC's own Drivers of Risk Transfer paper, and Andrew Curry & Anthony Hodgson's introduction to the Three Horizons approach. Workshop 1 was deliberately problem-setting: participants tested how risk has shifted from institutions to individuals over twenty years, and what would be needed to put income for life back at the centre of outcomes. The post-workshop synthesis, drafted by Ashok Gupta, is the Three Horizons spine of the work that followed. Throughout this report, H1 means Horizon 1, the current system and its problems; H2 means Horizon 2, the transition actions and bridge vehicles; and H3 means Horizon 3, the preferred future system.

Workshop 2 — 30 October 2025, Zoom. Facilitated by Andrew Curry (School of International Futures). The stated purpose was Product Design & Customer Needs: interrogating whether the current UK pension and life-insurance product landscape adequately serves customer needs, particularly for low-agency savers seeking pooled retirement income. The workshop deliberately excluded government risk-sharing (state pension support, sponsorship) to focus on what product providers and collective structures can do.

Chatham House rule. Both sessions were held under the Chatham House rule. Participants may be identified as attendees, but specific views are not attributed to named individuals or to their institutions. Where this report records a position taken in the room, it is recorded as a position advanced by participants, anonymised. Where the report sets out NCC's own view — most directly in §11 on mark-to-market and capital-charge reform — that is labelled as NCC's view, not as group consensus.

1. Risk-stripping as the system problem

The most useful frame for the rest of this report is the distinction between institutional and individual risk-bearing. Institutional risk-bearing is the historical UK pattern: long-duration institutions — life insurers, DB schemes — absorbed investment, longevity and timing risk on behalf of savers, supported by shareholder capital, cross-cohort subsidy and pooling. Individual risk-bearing is today's pattern: the DC saver, including unit-linked accumulation, carries the investment decision, the timing decision, the longevity risk and the residual risk — typically without advice.

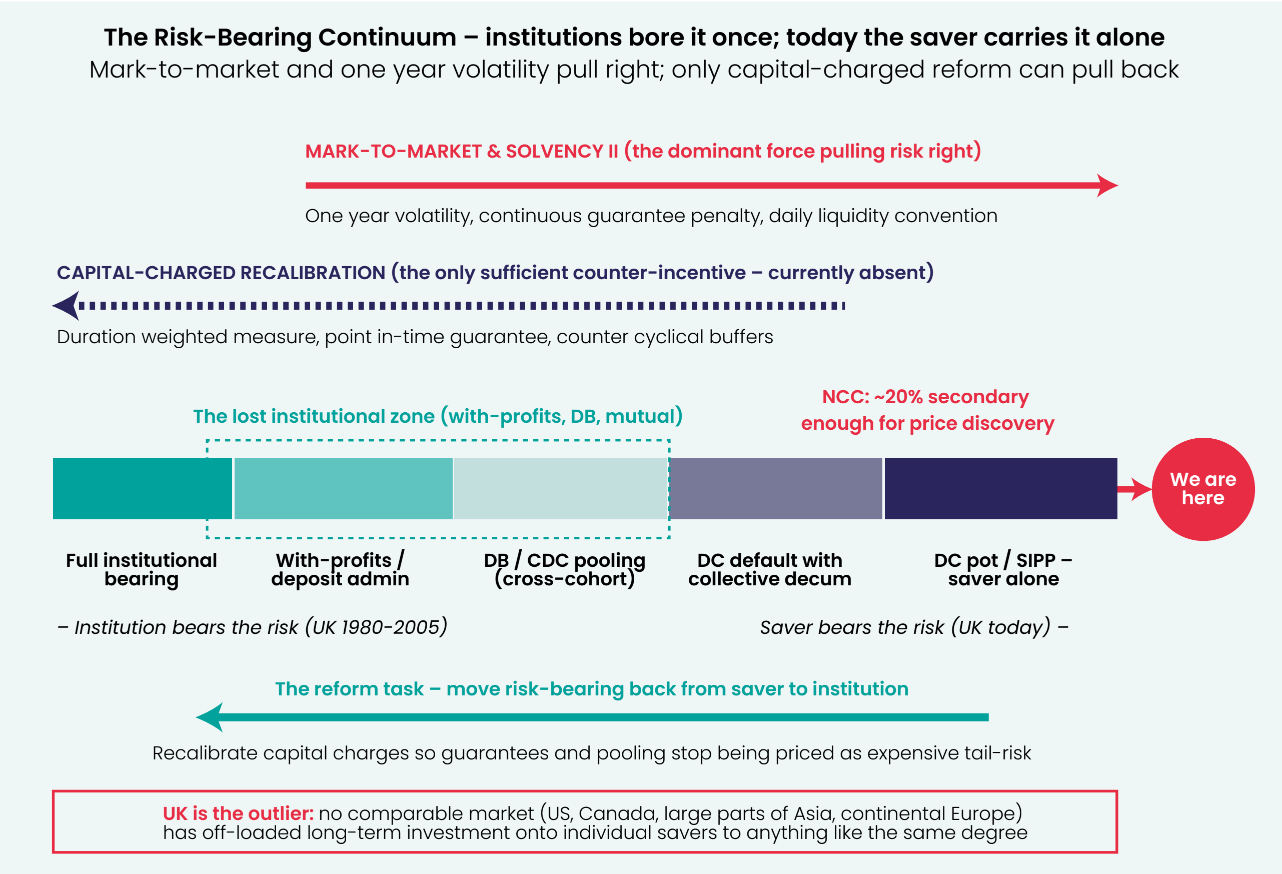
The UK is unusual in this regard. Contracts providing some form of investment underpin — with-profits, DB and equivalents — remain ubiquitous in the US, Canada, many Asian markets and large parts of continental Europe. Alongside this UK-specific pattern is a marked decline in the UK life-insurance industry's global standing: no UK life insurer now sits in the global top fifteen by market capitalisation, against a historical figure of three. The most vibrant part of the UK life sector today is the secondary market in pension liabilities, not the primary market in pension promises. The UK has, in effect, stopped writing the long-duration products savers actually need.

NCC view: this is not market failure, it is regulatory artefact.

The pattern of risk-stripping is not a story about consumer preference or competitive failure. It is the predictable response of long-duration institutions to the introduction of mark-to-market–based regulation and accounting in the UK — a measurement framework designed for trading institutions and mis-applied to long-duration ones.

Two consequences follow. First, the relationship between UK long-savings and reliable retirement income is much weaker than it looks in policy debate that conflates "savings" with "retirement income". Second, redesigning the system to put institutional risk-bearing back at its centre is a different exercise from squeezing more performance out of DC defaults.

Figure 2: The risk-bearing continuum. Institutions bore the risk once; today the saver carries it alone. Mark-to-market and one-year volatility pull right; only capital-charge recalibration can pull back.



Sources: Bank of England Procyclicality Working Group (2014); NCC Drivers of Risk Transfer (Workshop 1, July 2025); Workshop 2 synthesis (October 2025; Moody's (2026) for Canadian Comparators

2. The six mutually reinforcing problems

Six problems, taken together, hold the UK long-savings system in risk-stripping mode. They are mutually reinforcing: address one in isolation and the others reassert. Figure 1 maps them as a closed reinforcement loop. They are restated here with one paragraph of evidence each.

1. **Long-term risk converted into short-term risk.** Mark-to-market regulation and one-year volatility-based risk measurement have collapsed the operating time-horizon of UK long-duration institutions, pushing them toward tightly matched, liquid fixed-income strategies and away from equities and real assets. The Bank of England / Procyclicality Working Group discussion paper (July 2014) is the clean analytical antecedent; the 2022 LDI episode is the live example.

2. **Investment straightjacket.** Twenty years of accounting and regulatory pressure have driven UK long-duration institutions into a capital-lite straightjacket: a fee-based business model in which the institution earns fees for accumulating assets rather than for bearing risk against them. Asset owners have become asset gatherers rather than asset managers — markets do not reward life insurers or pension consolidators for holding anything other than a capital-lite balance sheet. The cost of moving back into Solvency UK — in capital, in process redesign, in regulatory dialogue — is now higher than the cost of staying out. The system has built a railway track; even institutions that want to leave it cannot easily get off.

3. **Product imbalance.** The UK product landscape over-serves high-agency, pot-based savers (SIPPs, drawdown, advice-led platforms) and under-serves low-agency savers seeking pooled retirement income. Where collective products exist (annuities, early-stage CDC), they tend to be narrow or under-developed.

4. **The death of risk pooling.** A thirty-year cultural shift, post-RDR advice economics, and capital rules that price pooling as expensive tail-risk have together eroded the basis for pooling. **Higher-**

wealth savers face a selection problem: why participate in a pool with lower-wealth savers when going alone has worked over the last cycle? Income for life, however, is achievable only through pooling — whether through an annuity or through a collective arrangement such as CDC. Pooling cannot simply be re-asserted; it needs to be redesigned back into the system.

5. **Mismeasurement of risk inside capital rules that price guarantees and pooling as expensive tail-risk.** Current VfM frameworks and KPI sets risk being scale-blind and backward-looking, and reward cost minimisation; the FCA consultation is live at the time of going to print, and the H2 task is to land them in a better place before they harden. Supervision treats one-year volatility as the operative risk metric. “Life risk” — dementia care, housing instability, household shocks — is not on the dashboard at all. Behind the measurement stack is the framework that gives it force: Solvency UK, mark-to-market accounting, IAS 19 on sponsor balance sheets, and the daily-liquidity convention together treat the products savers need as un-economic to supply, regardless of underlying economic merit. Mark-to-market based regulation penalises the cost of providing spot guarantees by converting a spot guarantee, in effect, into a continuous one; this is the proximate explanation for the near-total elimination of investment guarantees from the UK life-insurance market.
6. **Vehicle / product mismatch.** Each institutional vehicle operates under a different regulatory frame, and the frame determines which products the vehicle can deliver. Life insurers under Solvency UK are forced into capital-lite, fee-based models that cannot write risk-pooled product. DB funds under IAS 19, with the sponsor squeezed at every reporting date, end up in LDI and buyout. Wealth managers and investment trusts can pool only lightly, on a daily-priced basis. The vehicles that can still write the products savers need — Superfunds, CDC, and bulk-annuity writers under the Matching Adjustment — exist but are under-used. This is the bridge to §5.

Reframe

The H1 diagnosis of this workshop is the same H1 diagnosis as NCC’s Overseas Capital Flow workshop, viewed from the other end of the value chain. The system that trades US large-cap securities rather than investing in UK productive assets is the same system that off-loads long-term investment risk to individual savers rather than bearing it institutionally. Risk-stripping and overseas allocation are two faces of one regulatory artefact.

3. The mark-to-market diagnosis

Three drivers, drawn from the Workshop 1 pre-read pack and confirmed across both sessions, underpin the six system problems.

Mark-to-market based measurement. Under mark-to-market regulation and accounting, assets are taken at market value and liabilities are valued by discounting future cash flows using a risk-free or quasi-risk-free rate. The difference is some form of solvency measure. For life insurers, solvency is a hard measure: insurers drop into negative solvency at their peril. For DB schemes, supported by an employer covenant, solvency can run at a deficit provided this does not prejudice ultimate payment — but pensions accounting under IAS 19 puts that same deficit on the sponsor’s own balance sheet every reporting cycle, with the result that mark-to-market discipline reaches the sponsor whether the trustees apply it or not. Mark-to-market measurement — designed for trading institutions — has been mis-applied to long-duration institutions whose primary risk is permanent loss of capital and inferior real returns, not one-year price volatility.

Mispricing of risk. Mark-to-market based risk measurement has two specific deficiencies when applied to long-term investors. First, it converts a guarantee at a point in time into a continuous guarantee — a guarantee that has to be capable of being met at any point up to the strike date, rather than only at the strike date itself. The capital cost of the continuous version is materially higher, and explains the near-disappearance of investment guarantees from the UK life industry. Second, capital charges for different asset classes are calibrated to one-year price volatility, which is a poor proxy for the actual risk run by a long-duration institution and is inherently procyclical — volatility is typically low when prices are high and high when prices are low, so the framework encourages institutions to take more risk in bull markets and de-risk in bear markets.

Liquidity preference, not liquidity need. A third strand is the way daily liquidity has become a default expectation for products that do not need it. ETFs originated in the 1990s as an overnight cash-management tool for corporate treasurers — a vehicle for parking liquid balances without taking on duration risk. They were not designed as a retirement-saving chassis. Today, the secondary-market preference that has spread across UK long-savings is largely the illusory feeling of control afforded by daily dealing, rather than a real liquidity need for savers whose retirement is twenty or thirty years away. The cost of that illusion is the long-duration risk premium foregone, year after year.

Industry response. The response of UK life insurers and DB sponsors followed straight from the framework. Insurers terminated guarantee provision, sold capital-heavy portfolios to consolidators, and moved to fee-based unit-linked models — capital-lite asset gatherers rather than risk managers. DB sponsors closed schemes to new entrants and future accrual, switched from equity-led strategies to liability-matching (heavily LDI-based) strategies, and treated their scheme liabilities as legacies to be disposed of to specialist consolidators. The result is a UK long-savings industry that has almost ceased to pool long-term investment risk — not because pooling has stopped working economically, but because the capital cost of doing it inside the current measurement framework has become prohibitive.

3.1 Asymmetric regulatory weather, 1995–2026

The mark-to-market diagnosis in §3 has a corollary that is worth naming. For roughly twenty-five years, the products that pool risk and can make primary investment — with-profits, defined benefit, the supply side of bulk annuities, and the early-stage architecture for CDC — have faced a steady stream of regulatory headwinds. The products that do not pool risk and cannot make primary investment — daily-priced, individual-account, secondary-market vehicles — have had the opposite.

The two columns line up cleanly:

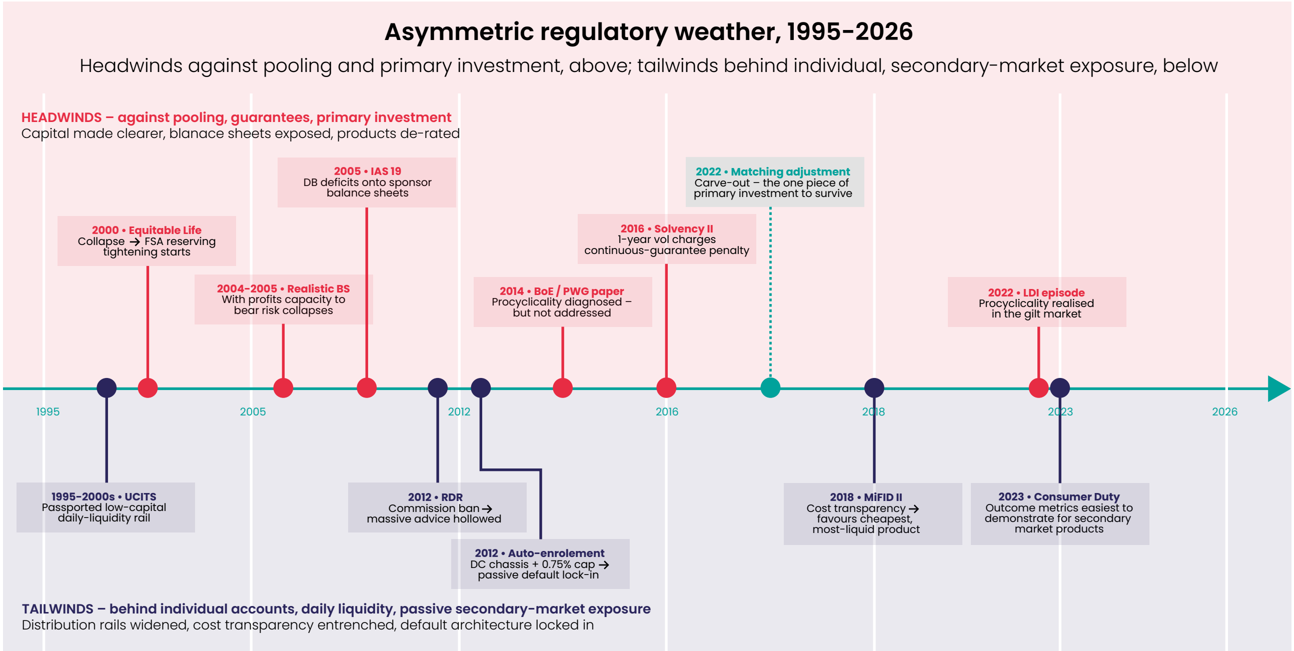
- **2000 — Equitable Life response.** Triggered the FSA reserving tightening that reset what could be promised in with-profits — effectively a systemic response to an idiosyncratic firm failure.
- **2004–05 — Realistic Balance Sheet regime.** With-profits capacity to absorb investment risk on shareholder capital collapses; the industry quietly stops underwriting it.
- **2005 — IAS 19 onto sponsor balance sheets.** DB deficits visible at mark-to-market every reporting cycle. Proximate cause of the 2005–2015 DB-closure wave.
- **2014 — BoE / PRA Procyclicality Working Group.** Diagnosed the framework's structural bias against long-duration risk-bearing. Sat with the diagnosis; did not act on it.
- **2016 — Solvency II in full force**. One-year price-volatility capital charges, continuous-guarantee penalty, daily mark-to-market. Capital cost of writing pooled, long-duration risk inside an insurer balance sheet steps up.
- **2022 — LDI episode.** Procyclicality, theorised in 2014, realised in the gilt market. Confirms rather than corrects the framework.

Tailwinds, on the other side of the ledger, run in the opposite direction:

- **1995–2000s — UCITS build-out.** A passported, low-capital, daily-liquidity distribution rail across Europe. The plumbing of mass retail flow into secondary markets.
- **2012 — RDR.** Commission ban hollows out mass-market advice; the unadvised saver is pushed onto platforms and passive products.
- **2012 — Auto-enrolment.** DC chassis with a 0.75% charge cap prices active management and illiquid product out of the default. Locks in secondary-market exposure as the system default for an entire working generation.
- **2018 — MiFID II cost transparency.** Reporting framework that rewards the cheapest, most-liquid product line by line.
- **2023 — Consumer Duty.** Outcome metrics easier to demonstrate for short-horizon, secondary-market products than for long-duration pooled ones.

The pattern is not, on the available evidence, a deliberate preference for one product family over another. It is a regulatory monoculture: a coherent mark-to-market, capital-adequacy and cost-transparency mindset propagating in parallel through regulators, policymakers and the financial press, with consistent direction of travel across files. Its product-mix consequence has been to make pooled, long-duration risk-bearing expensive to write and individual, secondary-market exposure cheap to distribute. The

Figure 3: Asymmetric regulatory weather, 1995–2026. Headwinds (above the axis) on pooled, primary-investment product; tailwinds (below) on individual, secondary-market exposure; the Matching Adjustment marked as the counter-example.



Sources: FSA/FCA Policy Statements; ILMT Solvency UK Reform Consultations 2022-24; BoE/PRA Procyclicality working group (2014); IAS 19; Pensions Act 2008; MIFID II RTS 27/28; FCS Consumer Duty FG22/5

cumulative effect over a generation is the shift from an investment to a trading mentality, written into the product menu the UK saver actually sees.

Where the headwind was lifted, primary investment returned.
The 2016 Matching Adjustment, by permitting bulk-annuity writers to hold illiquid, long-duration assets against matched liabilities without the standard market-risk capital charge, restored primary-investment capacity in one corner of UK life. Bulk-purchase annuities are now the one part of UK life-insurance investment activity that is materially growing — the cleanest existence proof in the report.

4. Customer segmentation — wealth, agency, and the income / pot divide

The input from participants in Workshop 2 created a visual board offering an explicit 2×2: high vs. low customer agency on one axis, investment pot vs. income on the other. The illustrative wealth thresholds were c. £250k+ for "wealthy" high-agency segments and c. £50–100k for "non-wealthy" low-agency segments. "Income" is the operative word: it is preferable to "decumulation" throughout this report, and replaces it from this point.

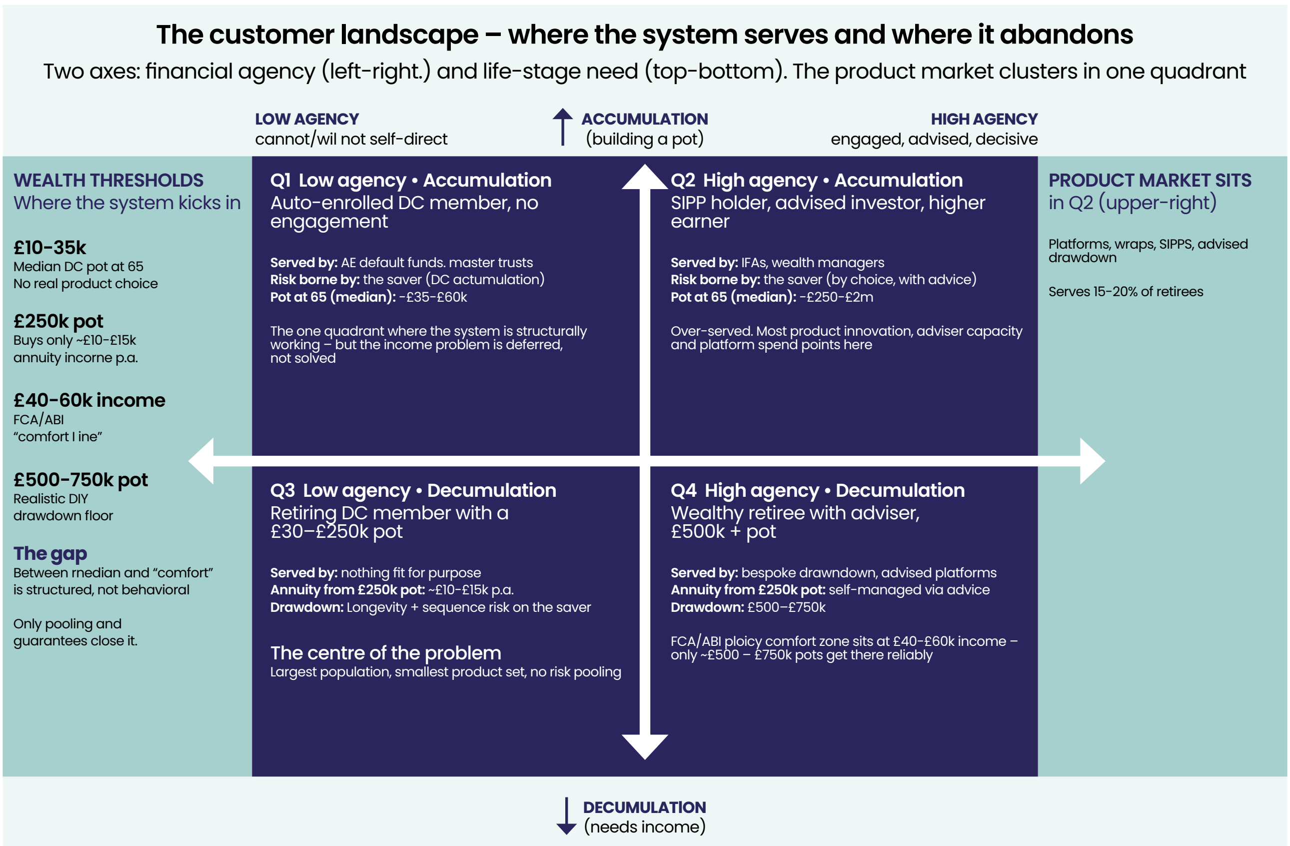
A pushback in the workshop drew on behavioural-insights evidence: wealth and agency are not the same thing. Wealth determines access to advice; agency is a separate axis. Two cohorts can afford advice. High-agency wealthy savers (the model-portfolio, platform, discretionary-managed world) are genuinely well served. Low-agency wealthy savers (private-bank discretionary management) receive advice, but in practice still bear the bulk of the residual risk, which makes the value of that advice an open question. It is the other half of the population — below the cost-of-advice line — that the system fails outright.

Below the cost-of-advice line, two distinct cohorts sit. The first — low-agency, no advice — are the default auto-enrolment cohort, swept into the DC chassis and left there. The second — some agency, no advice — are the DIY investors: people who want to invest, find regulated fund material intimidating or unhelpful, drift into crypto, get burnt, and then abandon investment altogether. NCC's parallel retail workstream calls this the speculative disappointment loop. It is the cohort the post-RDR system was always going to fail; the holistic-advice requirement, intended to protect them, has in practice disserved the very savers it was designed for.

Two further H1 features sit underneath the 2×2. The remoteness problem: pension age is moving further out, just as the perceived value of pension wealth depends on being able to imagine reaching it. As state pension age rises (67, 68, 69, 70+), savers describe their pension as money that belongs to a future stranger; meanwhile, policy asks them to save more into a vehicle they expect not to use. And "life risk": what people actually worry about — dementia care, housing instability, mortgage repayment, sudden household shocks — is not what UK pension product design is built around. Pension product design talks about investment risk and volatility; people experience risk as life risk. A retirement product that cannot help with the latter has a relevance problem, regardless of how well it manages the former.

Income for life is only achievable through pooling.
Whether through an annuity or through a collective arrangement such as CDC, lifetime income is a pooled product. The system's long retreat from pooling, traced in 3.5, is the reason most UK savers no longer have access to it.

Figure 4: The customer landscape. Two axes: financial agency (left–right) and life-stage need (top–bottom). The product market clusters in the upper-right quadrant; the lower-left quadrant — the largest population — is the abandoned one.



Sources: FCA Retirement income market data 2024; ABI Retirement income tables 2024; NCC Workshop 2 synthesis (October 2025); ACA Pensions Pound.

5. Vehicles and the products they can deliver

A diagnosis that ends with mark-to-market under-prices the answer. The operative question is not only what the framework does, but which institutional vehicles, under their own regulatory regimes, can still deliver pooled, primary-investment product, and which cannot. Five vehicle types matter; each operates under a different frame; each is capable of a different product mix.

Life insurers under Solvency UK. Forced into capital-lite, fee-based unit-linked product. The framework prices risk-pooling and continuous-guarantee provision as expensive tail-risk, so insurers have stopped writing them. The exception is the bulk-annuity book under the Matching Adjustment, discussed below.

DB funds under IAS 19. The sponsor balance sheet is marked to market every reporting cycle; the deficit cannot easily be lived with. Sponsors close, de-risk through LDI, and over time transfer liabilities to consolidators. There is no longer financial space inside DB to write new primary-investment product.

Superfunds and CDC. No sponsor whose balance sheet has to absorb the volatility; capital and risk pooled across members and cohorts rather than against a single corporate; investment horizon set by the members' lifecycle rather than by a one-year solvency measure. These are the vehicles that can do what is needed.

Bulk-annuity writers under the Matching Adjustment. The MA carve-out under Solvency UK permits long-duration, illiquid assets to be held against matched liabilities without the full standard market-risk capital charge. The result is the one part of UK life-insurance investment activity that has materially grown over the last decade — a corner of the market where, when the framework was deliberately recalibrated, primary-investment capacity returned to a meaningful degree.

Wealth managers and investment trusts. Useful, but with constrained pooling capacity. Wealth managers operate daily-priced, individual-account product. Investment trusts pool capital but on a daily-priced, listed basis with leverage capped and a different supervisory frame; they sit closer to the secondary-market end of the continuum than to the primary-investment end. They are a useful piece of the mix, not a substitute for Superfunds and CDC.

Figure 5: Institutional vehicles, the regulatory frame each operates under, and the products each can credibly deliver. Vehicles that can pool risk and make primary investment are the load-bearing parts of the H2 answer.

Vehicles, regulation and the products they can deliver

How an asset owner is regulated and accounted for determines the products it can offer

Vehicle	Regulatory / Accounting frame	Primary-investment / risk-pooling capacity	Direction
LIFE INSURANCE COMPANY With-profits, deposit-admin, guarantees, unit-linked	**Solvency UK + MtM** 1-year volatility capital, continuous-guarantee penalty, daily mark-to-market *Investment straightjacket*	**Forced capital-lite** Guarantees withdrawn; capital-heavy back-books sold to consolidators; fee-based unit-linked only *Asset gatherer, not risk manager*	↓
DB PENSION FUND Trust-based, sponsor covenant, cross-cohort pooling	**IAS 19 on sponser balance sheet** Deficits visible at MtM reporting cycle; TPR + lighter than insurance regime *Accounting straightjacket via sponsor*	**Could pool – but the sponser cannot wear it** Closed to new entrants; de-risked through LDI and buy-out; offloaded to bulk-annuity writers *Pooling exists via the sponser problem*	↓
SUPERFUND • CDC No sponsor; pooled across members and cohorts	**Pensions regime, IFRS-light** No Solvency UK penalty; no sponser convenant drag; cross-cohort risk-sharing permitted *The straightjacket does not bind here*	**Full primary-investment, full pooling** Long-duration investment with cross-cohort absorption; CDC delivers income for life *The vehicle the system needs*	↑
BULK-ANNUITY WRITER (MA) Life-co with Solvency UK Matching Adjustment carve-out	**Solvency UK with the calibration lifted** Illiquid, long-duration assets allowed against matched liabilities; no standard market-risk charge *Existence proof: lever the regulation, get the product*	**Primary-investment capacity returns** The one part of the UK life that has grown materially over the last decade; long-duration investing at scale *Direct evidence the lever works*	↑
WEALTH MANAGER • ITS SIPPs, platforms, drawdown, unit trusts, investment trusts	**Conduct-regulated only** No prudential capital on the saver's pot; UCITS / MiFD II ? Consumer Duty tailwinds *No straightjacket – but no pooling either*	**Distribution focus, not a risk-bearing institution** Individual accounts; daily liquidity; secondary-market exposure; investment trusts pool only lightly *Cheap to distribute, but the saver carries the risk*	→

Sources: PRA Solvency UK Rulebook; TAS 19; TPR Superfund guidance; PRA Matching adjustment papers; NCC Workshop 2 synthesis (2025)

6. What good looks like (H3)

The H3 quadrant of the Three Horizons map captured a preferred future system rather than a target product set. Five features were broadly agreed across the two sessions, and they are the spine of the solution design that follows.

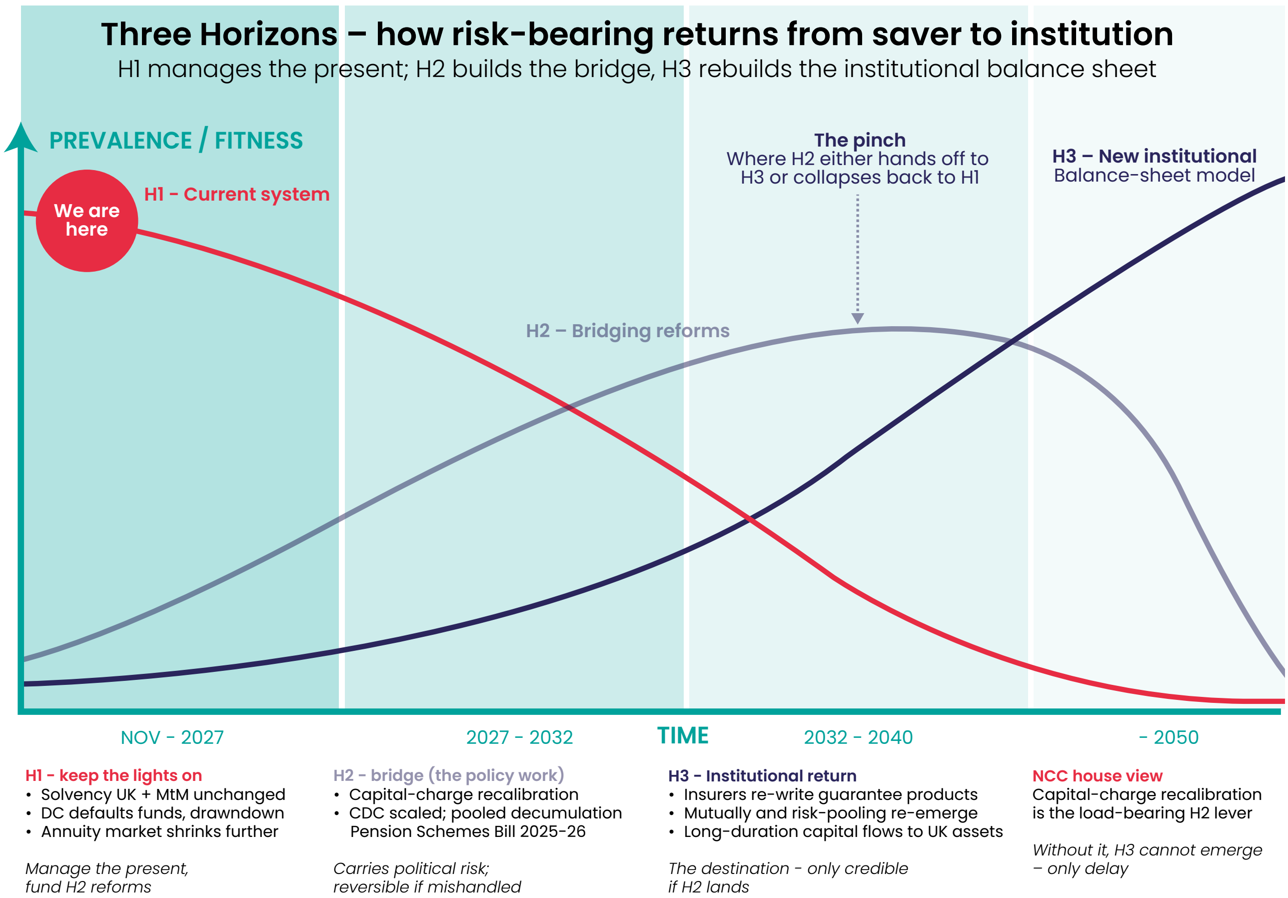
Reframed risk and agency. H3 reframes risk so that investment can be made over long-term horizons, with a deliberate, communicated tolerance for some degree of failure in pursuit of better lifetime outcomes. Roles and responsibilities are clear: who decides, who bears which risks, and at which point of the lifecycle. The long-term risk that long-savings institutions are uniquely placed to bear is borne by those institutions — not converted, on the way through, into a one-year volatility number that pushes them into matched fixed income. The system also strikes a deliberate balance between individual and public risk so that just outcomes are achievable rather than aspirational.

Purpose clarity. Pensions and long-savings products have an explicit, statable purpose at every level — saver, scheme, trustee, manager, regulator. Income for life is the operative purpose, not "savings vehicle"; product purpose statements, member communications and supervisory frameworks all read off that purpose; and the residual risk left with the saver after the system has done its work is communicated clearly and without unnecessary caveats.

Markets that serve outcomes. Rent-taking falls. Intermediation chains shorten. Where the market alone cannot deliver — in defaults, inertia-driven design, complex life-event flows — behavioural design (auto-enrolment-style nudges, soft-default architectures) is used deliberately rather than as an afterthought. The DB end-game and the DC income toolkit each carry a wider variety of well-designed, well-supervised options than they do today.

Aligned investments. The investment model and the retirement outcome come together: savers receive returns that protect the real value of income in retirement, and the investments that generate those returns also support a world worth living in. The same

Figure 6: Three Horizons — how risk-bearing returns from saver to institution. H1 manages the present; H2 builds the bridge; H3 rebuilds the institutional balance sheet. The pinch falls in the 2030s



After Sharpe, Curry & Hodgson (Three Horizons, IFF 2013); Schultz Futures Fluency, NCC Workshop 2 synthesis (October 2025)

H3 picture supports both the Risk Transfer answer (long-duration institutions bearing long-duration risk) and the Diversifying Investment Flows answer (UK long-savings money funding UK productive assets); the two workstreams are different views of the same target system.

The UK no longer an outlier. The institutional risk-bearing pattern of the US, Canada, Asian markets and most of continental Europe — modernised rather than reproduced — is once again recognisable in the UK. With-profits, deposit-administration and CDC architectures sit alongside DC pots; pooled income products are no longer rare; and UK life champions of global scale are once again a credible category. The Canadian model of a guaranteed-minimum-return fund — in which a sponsor underwrites, for example, a 3% floor available only on exit at a fixed date — is one concrete reference point: a guarantee designed as a point-in-time option rather than a continuous one, and therefore capable of being priced and supplied.

7. Green shoots already moving (H2 part 1)

Six green shoots — early signs of system change already visible, that warrant amplification rather than invention — are in train.

1. **The Pension Schemes Bill's default post-retirement solution.** The Bill will, for the first time, require DC schemes to offer a default post-retirement solution to members. The solution will, in practice, be collective in nature, and represents the most concrete legislative-led shift away from the "send pensioners off to sort themselves out" pattern of the last twenty years.
2. **Mansion House compact and Bank of England analytical work on long-horizon risk metrics.** Both are creating room — politically and analytically — for risk measures that reflect long-term outcomes rather than one-year volatility. The Bank of England (2014) discussion paper is the analytical antecedent; current Mansion House momentum is the political vehicle.
3. **Renewed legislative interest in superfunds and minimum standards.** Superfund statute exists but has not translated cleanly into practice. Operationalising the existing legislation, plus the parallel exploration of minimum standards, is one of the most under-used policy levers currently available.
4. **Consumer Duty and the Value-for-Money framework.** Both create regulatory openings to reframe fiduciary duty and product governance around outcomes — including income sustainability, life-risk resilience and real-terms preservation — rather than around backward-looking returns and cost minimisation alone. Both are still being calibrated, and the H2 task is to put the right outcome metrics inside them before the framework hardens.
5. **Deliberative beneficiary research at NEST and elsewhere.** The system has, for a long time, designed pensions around what is simplest to administer rather than around what savers say they want from retirement income. NEST's deliberative beneficiary work is the cleanest current example of the latter being properly investigated — including the early cash-sidecar architecture, in which a portion (illustratively 10%) of the employer contribution is directed to an emergency cash account alongside the 90% to the default fund. The intent is to treat the DC chassis as a hub for adjacent financial needs, not only an accumulation vehicle.
6. **A widening climate lens, taking in nature and biodiversity.** The original climate lens is becoming both broader (nature-related financial risks) and more practical (climate adaptation and resilience, not only mitigation). Both shifts increase the long-horizon risk that long-savings institutions need to be able to price and bear, and raise the institutional stakes of getting H1 risk-measurement right.

8. Blue levers — fix now, sponsor the vehicles, leave the long-horizon for §11

The H2 work falls into two pieces. There are H1 fixes that can be made now under the existing framework. And there is a substantive H2 ask: sponsor the vehicles that can pool risk and make primary investment despite Solvency UK.

8.1 H1 fixes (now/next 12 months)

1. **Re-centre purpose.** Make income for life explicit in product purpose statements and member communications; explain residual risk to savers simply and directly; replace "savings vehicle"framing in supervision and product literature with explicit retirement-income purpose. Two papers should now be produced: a plain-English member-communications template and a model and a model purpose statement for trustees and product governance committees.
2. **Fix near-term measurement.** Refresh VfM and related KPIs so they are forward-looking and realistic about scale; prioritise expected outcomes

and attribution over backward-looking returns league tables; build outcome metrics that engage with income sustainability and life-risk resilience, not only with returns and cost. NCC should produce a policy paper on VfM/KPI reform that sets out immediate changes, and makes clear how this goes beyond simply repeating the FCA consultation response.

3. **Capability and governance.** Strengthen trustee resourcing and decision support; apply systems tools, including the Three Horizons frame the workshops have used, to today's choices rather than reserving them for long-run visions; use dashboards in a way that spurs forward-looking change rather than short-term churn. A policy paper should be produced in the form of a trustee capability and decision-support brief.
4. **Unlock dormant policy tools.** Move superfunds from statute to practice; explore minimum standards to curb poor-value outcomes in the near term; tidy up existing legislation that has not been operationalised. NCC should produce two policy papers: a short superfunds options paper and a principles note on minimum standards.
5. **Reform the advice / guidance boundary.** The post-RDR holistic-advice requirement has disserved most UK savers, and the targeted-support / guidance reforms now in train are the most promising lever to bring scaled help back to the mass-affluent and below. A further policy paper should be produced on advice / guidance reform, drawing on current FCA proposals on targeted support.

8.2 Sponsor the vehicles (the substantive H2 ask)

We will not change UK or IFRS regulation within a timeframe that helps the economy. We need innovation. What we have to work with, on the available menu of vehicles, is Superfunds and CDC. The H2 work, accordingly, is to sponsor those vehicles into existence and to review the vehicles that say they pool risk but in practice do not.

1. **Operationalise Superfunds.** The statute exists but has not translated cleanly into practice. Move from statute to operating models, with explicit member-value tests, prudential standards and a clear go/no-go gate for sponsoring vehicles.
2. **CDC at scale. Whole-of-life CDC, decumulation-only CDC, and multi-employer CDC each have a candidate role in the H2 architectu**re. Pilot evaluation criteria — income stability, fairness across cohorts, net costs — should be specified up front, with transparent reporting. CDC is the cleanest current candidate for putting income for life back at the centre of UK pensions.
3. **Review the vehicles that claim to pool risk.** Investment trusts, pooled wealth-management products, multi-asset funds with smoothing mechanisms — the supply side is patchy and definitions are loose. A short review of what each vehicle actually delivers, under its own regulatory frame, would clarify which are genuine candidates for the H2 architecture and which are not.
4. **Rebuild shared pots, and make pensions portable between them.** Two connected pieces of work. First, a modern version of the old with-profits and deposit-administration models: products that share investment ups and downs across savers and across generations, with the insurer's own capital standing behind the promise. These worked for decades, and the underlying idea — pooling risk rather than leaving each saver to face it alone — still works; what needs updating is the design, the disclosure and the capital treatment. Second, a common yardstick — sometimes called a 'pensions pound' — that lets a saver's DB, DC, with-profits or CDC entitlement be expressed in the same units, compared like-for-like, and moved between schemes without losing value. The Association of Consulting Actuaries floated the idea some years ago; the job now is to dust it off and make it work in practice.

9. Disagreements and open questions

Three open points sit alongside the levers and should be carried forward rather than smoothed over.

Pooling cannot simply be re-asserted. The cultural shift away from collective risk-sharing has been thirty years in the making; "go-it-alone" has worked, on the record, for high-pot DC savers over the last cycle. Asking those savers to participate in pools with lower-pot savers — without addressing why they should — runs straight into the selection problem identified above. H2 work on modernised with-profits / deposit-administration must therefore include an explicit answer on cross-cohort subsidy and shareholder-backed underpins, not only product mechanics.

Auto-enrolment is fragile at exactly the wrong moment. Surveys show widespread resistance to higher contribution rates. Pushing for richer pooled products and longer time horizons via auto-enrolment will land in a political environment that is, at the margin, more not less hostile. There is a further point: putting more money into a system that operates as an asset-gathering machine rather than an asset-investing one risks compounding the very problem the policy is meant to solve. Policy design needs to be politically acceptable, and substantively right, not one or the other.

Mark-to-market reform is necessary but contested. Mark-to-market based capital charges are calibrated to volatility rather than to permanent loss, and so systematically over-price long-term guarantees and pooling. Reform is therefore directly load-bearing for the H3 system. A strand of the discussion in the workshop emphasised, equally, that mark-to-market discipline catches real risks and that any reform must avoid weakening the bits of the framework that work. The H2 task is to identify the specific calibration choices that price long-duration risk badly, rather than to argue against mark-to-market in general. This is the open question that §11 takes head-on.

10. Recommendations — now and next

Recommendations are deliberately short. The H1 fixes should read as immediate quick wins over the next 12 months; the H2 vehicles work is the substantive build. The long-horizon capital-and-accounting reform sits in §11 as NCC's house view, not as a group recommendation.

Now (next 12 months)

1. **An NCC policy paper on VfM and KPI reform.** Forward-looking, scale-aware, outcome-aligned. Engaging explicitly with income sustainability and life-risk resilience, not only returns and cost.
2. **A policy paper with a plain-English member-communications template.** On income for life, residual risk, and the price of daily liquidity and maximum flexibility. Designed to sit inside Consumer Duty and the Pension Schemes Bill default-solution architecture.
3. **NCC policy papers on superfunds operationalisation and minimum standards.** The dormant-tool work — ready for near-term legislative and supervisory pickup.
4. **A policy paper on the advice / guidance boundary.** Drawing on the current FCA targeted-support proposals; designed to bring scaled help back to the mass-affluent and below.

Next (12–24 months)

1. **CDC pilots, with pre-specified evaluation criteria.** Income stability, fairness across cohorts, net costs; transparent reporting and clear go / no-go decision points.
2. **Better ways of measuring risk for long-term savings, with a companion note on Solvency UK.** Today's capital rules judge a 25-year pension promise by how much its value bounces around over a single year. That is the wrong yardstick, and it is the main reason UK insurers and pension schemes have stepped back from the products savers actually need. This work would set out risk measures that reflect long-term outcomes — will the money be there, in real terms, when the saver retires? — and flag the specific points in the Solvency UK rulebook that need recalibrating. It draws on the Bank of England's and the Mansion House work already underway, and feeds the longer-term reform argument set out in §11.
3. **Modernised with-profits and deposit-administration design notes.** Building on the historical record of cross-cohort risk-sharing backed by shareholder capital; explicit answer on the selection problem.
4. **A review of vehicles that say they pool risk.** Investment trusts, pooled wealth-management products, multi-asset funds with smoothing mechanisms — what each actually delivers under its own regulatory frame.
5. **A consolidation playbook with embedded member-value tests.** Shorter rent-taking chains, automation / AI use cases, and governance-capacity benchmarks.

What we are not recommending.
A long, fully-plotted programme of structural reform on a single timeline. The framework will not be rewritten on our schedule; the work has to be spread forward, not loaded onto one date. The right posture is to fix what can be fixed now, sponsor the vehicles that can carry the H2 weight, and keep the capital-and-accounting work moving in parallel.

11. NCC house view — mark-to-market and capital-charge reform is the long-horizon lever

What we are not recommending.
This section sets out NCC's own position. It is not the group's consensus, and it is not a near-term recommendation. A strand of the discussion in the workshop emphasised that mark-to-market discipline catches real risks; another emphasised product design, pension-rights portability, or advice-economics repair as the load-bearing piece. NCC's view, taking those strands seriously and weighing them against system dynamics, is that in the long run — once the vehicles work has been pressed forward — the capital and accounting frame must be recalibrated for long-duration UK liabilities. The Matching Adjustment evidence is traced in 3.5.

If long-term risk converted into short-term risk is the first of the six mutually reinforcing problems, the regulatory and accounting frame is the one that holds the other five in place. The other levers set out in §§7–8 all run, in the long run, into the same wall: under one-year volatility-based capital charges and daily-liquidity conventions, the products savers need are systematically priced as expensive tail-risk. The H2 vehicles work is the lever NCC believes can move now; capital-charge reform is the H3 reform that lets it scale.

The specific calibration choices that mis-price long-duration UK liabilities. NCC's working list, drawn from Workshop 1 and the discussion in Workshop 2, is short:

1. **Time horizon of the volatility measure.** Replace or supplement one-year price volatility with a duration-weighted measure that recognises a 25-year liability is not at risk of permanent loss from a one-year drawdown.
2. **Continuous-guarantee penalty.** Calibrate guarantee capital to the point-in-time probability of failure on the strike date, not to a continuous solvency requirement that has to be capable of being met every day of the contract.
3. **Procyclicality.** Build in symmetric counter-cyclical buffers so that capital does not have to be raised in falling markets and released in rising ones — the LDI dynamic of 2022 in reverse.
4. **Long-duration asset capital.** Recalibrate capital charges for equities, real assets and unlisted investments to long-horizon expected drawdown and permanent-loss measures, not one-year volatility — in particular for portfolios held against liabilities of 15+ years.
5. **Daily liquidity convention.** Recognise the price paid for daily liquidity and allow long-duration liabilities to be matched with assets that carry a deliberate illiquidity premium without punitive capital treatment.

Designed to be calibrated, not abandoned. The proposal is not to remove mark-to-market discipline. Mark-to-market catches real risks and is a necessary measurement frame for the trading institutions it was designed for. The proposal is to recalibrate, for long-duration UK institutions, the specific choices that today price long-term risk as if it were short-term risk. Current Mansion House and Bank of England work is the policy vehicle; the Matching Adjustment evidence in §3.5 shows the lever works when applied.

12. Next steps

Three immediate steps, in line with the cross-trilogy programme:

1. **H1 measurement work.** Take the VfM/KPI refresh pack and the outcome-aligned risk-metric guidance through internal NCC review and into draft form for trade-association and regulator dialogue.
2. **Activate the vehicles work.** Draft the superfunds operationalisation paper and the CDC pilot framework. These do not require new statute; they require operationalisation of statute already on the books, and the design of evaluation criteria that can be defended.
3. **Connect with the Diversifying Investment Flows workstream.** The two workstreams are different views of the same target system. A joint synthesis note will make that explicit, and will feed the public-facing piece that follows the trilogy of technical reports.

The Diversifying Investment Flows report sits alongside this one. The Broken Link redraft follows. A combined, public-facing piece, drawing on all three, will be developed once those reports are complete.

Annex

Annex A – Three Horizons in brief

The Three Horizons framework, originated by Tony Hodgson and developed by the International Futures Forum, is a practical tool for thinking about systemic change.

Horizon 1 (H1) is the current dominant system — the rules, structures, incentives and habits that produce today's outcomes. H1 is losing fitness, but it is also the system everyone currently knows how to operate inside.

Horizon 3 (H3) is the preferred future system — the patterns, attributes and relationships of "what good looks like". H3 is rarely fully present, but "pockets of the future in the present" can usually be identified.

Horizon 2 (H2) is the transition — the turbulent middle, in which actions, levers, products, regulations and institutions emerge that bridge from H1 to H3. H2 contains both green shoots (early indicators of H3 already visible) and blue levers (deliberate, designable transition actions).

The framework is deliberately content-light: it does not prescribe what H3 should be, but provides a discipline for separating diagnosis (H1), aspiration (H3) and action (H2) so they can be debated honestly. The Risk Transfer workshops used a pre-populated Miro board across two sessions, with pink (H1 problems), green (H3 features) and light blue (H2 levers) stickies on the central Three Horizons mind-map, supported by a 2×2 customer-segmentation frame and two question rounds in Workshop 2.

Annex B — Workshop frames and underlying H1/H3 stickies

The workshop Miro board carried three sticky-colours on the central Three Horizons mind-map. Pink (H1, "Dominance of model") captured the current system: insurer withdrawal from with-profits and DB; the rise of mark-to-market and the wrong KPIs; conflict between investor and system interests; UK as international outlier. Blue (H2) captured transition activity. Green (H3, 2035+) captured the preferred future: clarity of purpose, reframed risk, clarity about acceptable risk and failure, stronger long-term consumer engagement, supply-chain shortening, residual-risk communication, and long-term risk diversified through collective saving. Figure 6 above is the synthesis of that mind-map at report-quality.

Annex C — Chatham House note

This report was prepared on the Chatham House rule. Participants are identified as attendees in the Workshop Context section above. Positions advanced in the room are recorded as group positions, anonymised. Where the report sets out NCC's own view — most directly in §11 on mark-to-market and capital-charge reform — that is labelled as such, and the contrary strands of the workshop's discussion are recorded alongside it.

Annex D — Sources

1. Drivers of Risk Transfer (NCC, Workshop 1 pre-read, July 2025) — primary statement of the mark-to-market, mispricing-of-risk and industry-response analysis.
2. Workshop 1 Outcomes Brief — Risk Transfer (NCC, 17 July 2025) — H1/H2/H3 synthesis post-Workshop 1; the structural skeleton of this report.
3. Workshop 2 transcript and synthesis — Product Design & Customer Needs (NCC, 30 October 2025).
4. Wendy Schultz, Defining Futures Fluency (extract; in Workshop 1 pre-read pack).
5. Andrew Curry & Anthony Hodgson, The Three Horizons Approach (extract; in Workshop 1 pre-read pack).
6. Bill Sharpe, Three Horizons: The Patterning of Hope (International Futures Forum, 2013).
7. Bank of England and Procyclicality Working Group, Procyclicality and structural trends in investment allocation by insurance companies and pension funds (Discussion Paper, July 2014).
8. Pension Schemes Bill 2025–26 (UK Government) — including the default post-retirement solution provisions referenced in §7.
9. Mansion House compact and associated Bank of England analytical work on long-horizon risk metrics.
10. Donella Meadows, Leverage Points: Places to Intervene in a System (1999) — referenced in Workshop 1 framing on points of leverage.
11. Association of Consulting Actuaries, "Pensions Pound" proposal — the portability simplification referenced in §8.2.
12. Solvency UK Directive and PRA / Bank of England consultation papers on capital-charge calibration for long-duration liabilities (most recently 2024–26), including the Matching Adjustment regime.
13. IAS 19 — Employee Benefits (IFRS Foundation) — the accounting standard cited in §3.5 on DB sponsor balance-sheet visibility.
14. UCITS Directive (1985 onwards) and successor measures — the distribution rail referenced in §3.5.
15. Retail Distribution Review (FSA / FCA, 2012) — the commission ban referenced in §3.5.
16. Pensions Act 2008 and auto-enrolment regulations — including the 0.75% charge cap referenced in §3.5.
17. MiFID II (2018) — cost-transparency framework referenced in §3.5.
18. FCA Consumer Duty (2023) — outcome-metric framework referenced in §3.5 and §7.
19. FCA targeted-support and advice / guidance reform proposals — the post-RDR repair work referenced in §8.1, and discussed by Sam Turner (EV) with Lucian Camp and Brendan Llewellyn on On the Other Hand.
20. NEST deliberative beneficiary research, including the cash-sidecar architecture with BlackRock — referenced in §7.
21. HM Treasury note on framing UK long-term savings reform (early draft, internal).
22. FCA Retirement Income Market Data 2024; ABI Retirement Income tables 2024 — the customer-segmentation thresholds and £-figures in §4.

New Capital Consensus
A better investment system for all

About New Capital Consensus

New Capital Consensus is a coalition of not-for-profit, apolitical organisations that have come together to explore how the current UK investment system contributes to the country's current problems of low productivity, inequality and low levels of investment. Its objective is to find ways to release investment capital to address societal problems, like those above and in particular, to green the economy.

We believe addressing these problems requires us to:

- Understand how the system operates holistically and as a complex adaptive system;
- Recognise the source of private investment resides predominantly in consumers retirement savings;
- Develop a clear map of the system and an accurate quantification of and view on system stocks and flows;
- Through this, identify the policy levers capable of redirecting system flows toward more productive uses that benefit savers.

We will focus not only on those beneficial policy changes that can be effected within the current system but - recognising that current market structures have developed in an anachronistic way - also those that require changes to current market structures, approaches and beliefs.

The NCC coalition of organisations comprises **Finstic** (Financial Systems Thinking Innovation Centre), **University of Leeds** and **Radix Big Tent** and is incubated at **Chatham House Sustainability Accelerator**.

Chatham House, the Royal Institute of International Affairs, is an independent policy institute based in London. Its mission is to help build a sustainably secure, prosperous and just world. Chatham House does not express opinions of its own. The opinions expressed in this publication are the responsibility of the authors.

For further information about New Capital Consensus and its work please contact Ben Rich on **07469 159 134** or **ben.rich@radixuk.org**

FinSTIC Financial Systems Thinking Innovation Centre | UNIVERSITY OF LEEDS | RADIX BIG TENT | CHATHAM HOUSE

July 2026