HYMANS ROBERTSON

Risk transfer regulatory review

December 2025

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Executive summary

As 2025 comes to a close, we look back on a year filled with regulatory activity of pension risk transfer. For pension schemes that have buy-in policies or are considering using insurance at some point, these regulatory developments should be of interest. They can impact the security of the insurers or on the pricing of their products. While we've published regular updates throughout the year, we felt that since there had been so much activity that a single report bringing this all together would be a useful reference for those involved with UK defined benefit pension schemes.

You'd be forgiven for thinking that after years spent updating Solvency II to Solvency UK, it would be all quiet on the regulatory front. While there hasn't been that much by way of further change, there has certainly been plenty of activity. The highlight of the year has been the regulator's stress testing of major buy-in insurers, demonstrating their resilience to major shocks, but we have also seen funded reinsurance under the regulatory spotlight. Other areas of focus have been certain types of termination rights, which are generally only relevant for the largest buy-ins, and making it quicker for insurers to invest in new asset classes.

Our report looks to summarise the key areas of regulatory focus over 2025, how pension schemes could be impacted by these areas and a look ahead to 2026.

As this is the first time we've published a report of this nature, we would really value your feedback, please do get in touch. Contact the team below if you have any questions about anything covered.

We wish you all season's greetings and a happy new year!

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Matching Adjustment Investment Accelerator

Insurers were previously unable to use new asset types to back their annuity liabilities without receiving approval to do so from the [Prudential Regulatory Authority (PRA)] through a formal application. Insurers cited this inflexibility as a barrier to seizing investment opportunities as they arose.

Following a consultation issued in April 2025, the [Matching Adjustment Investment Accelerator (MAIA)] was introduced, which was subsequently formalised into a Policy Statement (PS17/25) in October 2025.

What is MAIA?

Firms granted permission to use the MAIA will be able to immediately invest in new asset types they believe to be eligible under [Matching Adjustment (MA)] regulations and take credit for the associated MA ahead of receiving formal approval from the PRA – a process which can be lengthy. Firms seeking permission to use the MAIA will need to demonstrate they have appropriate controls and procedures in place. Firms will be required to have a contingency plan if the formal approval from the PRA confirming an asset is MA eligible is not granted.

Insurers will need to apply to make use of the MAIA. For those doing so, permission will include a limit on the total exposure to so called MAIA assets set at the lower of 5% of an insurer's total MA portfolio or £2bn. Insurers will also be required to seek full MA approval for the asset within 24 months of initial usage. They will also require a Board approved policy setting out how they propose to determine eligibility, risk appetite and governance for each new MAIA asset.

What does this mean for pension schemes?

Insurance CIOs can now react more quickly to new investment opportunities as they arise, aligning them more closely with other credit market participants who are not constrained by regulatory delays. While this may provide a slight boost to insurer capacity and pricing improvements in certain instances, there will be no step change in either of these areas resulting from these changes and its impact will be fairly modest. For pension schemes with holdings of MA-type illiquid assets, the MAIA may allow insurers to consider taking such assets as part of the premium payment within a shorter timeframe.

Solvency triggered termination rights

On 4 July 2025, the PRA issued a 'Dear CRO' letter to bulk annuity insurers outlining the results of its thematic review of solvency triggered termination rights (STTRs).

What are solvency triggered termination rights?

STTRs allow trustees to terminate a buy-in policy with an insurer in the event that the insurer's Solvency Coverage Ratio falls below a pre-determined level negotiated as part of the buy-in contract. STTRs are typically part of a suite of termination rights that might be negotiated for large scale transactions rather than being the norm across the market. They're only relevant whilst in the buy-in phase of a transaction; once individual policies are issued and the buy-in converts to a buy-out, the termination rights fall away.

Key areas of discussion between trustees and insurers are:

- the insurer's solvency level at which the termination right becomes effective;
- the amount of the termination payment;
- the cure period or grace period in which an insurer has time to re-establish its solvency coverage ratio once it's first been breached;
- the assets that would be returned to the pension scheme in the event of a termination right being invoked; and
- the timescale for the return of such assets.

The PRA's review has concluded that the market exposure to these termination rights across the market is around £50bn, ie if all insurers were to fail tomorrow, £50bn of assets would need to be returned to pension schemes if all the associated termination rights were invoked. If no additional exposures were negotiated, this amount would run off over time as both pension scheme liabilities mature and buy-in policies convert to buy-out.

In a change in approach from the PRA, firms are now expected to notify the regulator if STTRs are included in buy-in contracts, albeit there's no blanket requirement that these be pre-approved.

The PRA has highlighted the following areas of potential risk, which it will continue to monitor as part of its ongoing supervision of firms and as part of a follow up review in 2026.

Liquidity impact – Firms should consider whether the triggering of these termination rights could lead to liquidity concerns. Whilst the PRA has indicated that many firms have sought contractual flexibility such that the asset composition of termination portfolios does not adversely impact residual portfolios, it noted the challenges of being able to transfer illiquid assets in times of stress. The concern is that the insurer may not be left with sufficient liquid assets and will incur losses through forced sales of illiquid assets.

Asset concentrations – Similar to the liquidity risk noted above, if the termination portfolio is disproportionately composed of a particular asset class or characteristic, the insurer runs the risk of its residual portfolio being overly concentrated with other asset classes.

Contractual uncertainty and operational implications – Ensuring contractual protections and operational processes are sufficiently robust to withstand times of stress are two further considerations. Clear advance planning is required, covering areas such as timings, resourcing and responsibilities.

The PRA found that many insurers were mindful of these risks and had taken steps to mitigate them, but that most need to do more to demonstrate that they have adequately considered these risks.

What does this mean for pension schemes?

A greater focus from the PRA will likely give insurers pause for thought in terms of how readily they may or may not provide solvency-based termination rights under new contracts, for transactions that might form a significant portion of the insurer's portfolio. Where they do agree to such provisions, we expect there to be additional focus on the termination mechanics, and in particular the composition of the asset termination portfolios being provided.

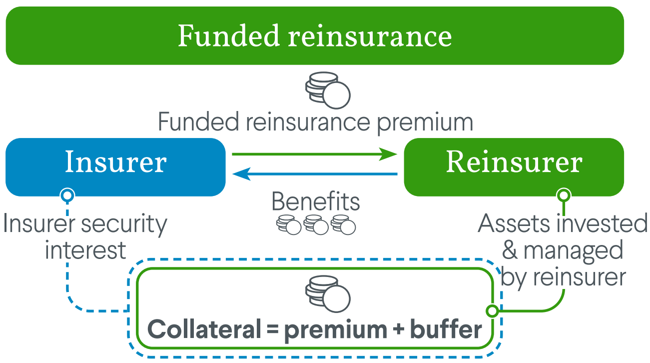
Funded reinsurance

What is funded reinsurance?

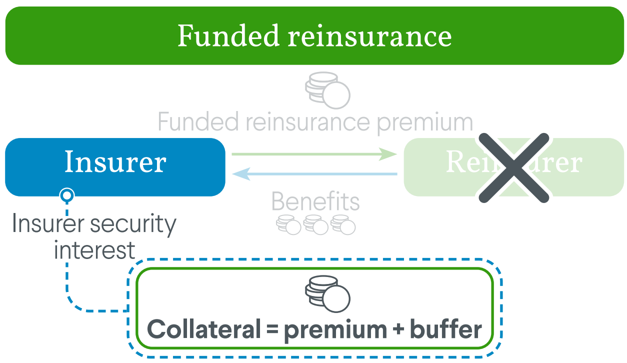
When entering into funded reinsurance, an insurer takes a portion of the buy-in/buy-out premium received from the pension scheme and passes it on to a reinsurer, often but not necessarily overseas. The reinsurer then provides monthly benefit payments to the insurer, and the insurer passes these payments on to the pension scheme (after a buy-in) or the pensioners directly (after a buy-out).

Insurers use a suite of contractual protections and collateral arrangements to protect against a reinsurer's financial strength deteriorating, as well as planned management actions should this occur. The idea is that at the point of a reinsurer failing (or, ideally, before), the insurer can step in and take control of a portfolio of assets that it can use to back the liabilities itself (this is known as a 'recapture').

Business as usual



Recapture



Extent of usage

The recent Life Insurance Stress Tests also included a funded reinsurance recapture scenario (Exploratory scenario 2). Those insurers with material funded reinsurance exposures were asked to apply a scenario whereby their most material counterparty defaulted. They were also required to recapture the transferred risks back onto the balance sheet.

One notable statistic coming out of the exercise was that c. £12.3bn of funded reinsurance[1] contracts were recaptured under the stress scenario. This represents c. 50% of exposures and suggests some insurers have relatively concentrated exposures to single reinsurers. Although it should be noted that the results didn't disclose the extent to which there is overlap between these reinsurers (to the extent there is overlap, this could introduce some systemic risk). We estimate that the total exposure to funded reinsurance of all insurers subject to the stress testing is c.6%, or c.9% when considering only those insurers that have funded reinsurance exposures.

What's changed?

In July 2024, the PRA issued a 'Dear CEO' letter along with a detailed supervisory statement outlining its expectations for insurers undertaking funded reinsurance transactions. In the letter, the PRA restated its concerns that growth in funded reinsurance could pose a risk if it is not properly controlled. The regulator noted that while it had seen some improvements in risk management of funded reinsurance, it expects insurers to go further. The PRA mandated firms to give it information at the end of October 2024 to show whether their funded reinsurance arrangements and associated risk management frameworks meet the PRA's expectations. The PRA also said that if it considers an insurer doesn't meet the expectations set out in the supervisory statement, it may seek to take further action or use its powers.

[1]The stress testing considered funded insurance agreements entered into since 2016 and excludes intra-group reinsurance. All references to funded reinsurance exposure here are consistent with this treatment.

Whilst the picture appeared unexpectedly quiet on funded reinsurance for most of 2025, in September, Vicky White, Director of Policy at the PRA made a speech focused on innovation and risk in the life insurance sector at a Financials CEO conference. The speech had a particular emphasis on funded reinsurance and the use of capital in the bulk annuity market. What has subsequently followed is a high amount of attention across the market from insurers, commentators and trustees all keen to understand the direction of travel for this sector of the market.

As the regulations currently stand, funded reinsurance is treated analogously to a longevity reinsurance transaction and capital is held against the likelihood of the counterparty defaulting. The PRA view is that this may understate the risks, and they're considering whether contracts should be treated in a similar manner to other credit investments, where the credit rating and duration of the assets is used to determine the level of capital held. Typically, we would expect this credit rating approach to result in a higher capital charge than under the counterparty default approach.

During the course of October, the PRA has held roundtables and bilateral discussions with insurers to discuss the potential options for capital treatment. There are two primary approaches that have been discussed, both of which could result in higher capital charges:

Unbundled approach

The unbundled approach to capital treatment for funded reinsurance involves separating the underlying risks within the transaction into an investment component and a risk transfer component and assessing each element individually. Rather than treating the entire arrangement as a single counterparty exposure, this method analyses the credit quality and duration of the assets backing the reinsurance, alongside other risk components.

Credit Default Adjustment approach

The credit default adjustment approach to assessing capital for funded reinsurance involves treating the transaction similarly to other credit investments, rather than as a reinsurance counterparty exposure. Under this method, the capital required is determined based on the credit rating and duration of the assets backing the reinsurance arrangement.

Our understanding is that the Credit Default Adjustment approach is the more likely of the two. There is also an indication that under either approach, the PRA would consider applying an overall percentage limit to exposures/usage of funded reinsurance.

Some change seems inevitable at this stage and our expectation is that a consultation regarding any proposed changes will be issued during 2026.

What does this mean for pension schemes?

At this stage, we're yet to see much impact for pensions schemes. However, the content of the expected consultation paper will likely give a clearer picture regarding the scale of any change. As noted above, an increase in capital requirements and a limit on the amount of funded reinsurance that can be utilised seem likely – which would have an impact on insurer pricing competitiveness and capacity.

Life insurance stress tests (LIST)

What is LIST?

The PRA has conducted regular life insurance stress tests since 2019, with the last one being conducted in 2022. The stress tests apply a series of severe yet plausible events to insurers in order to assess individual insurers' and the sector's resilience. The tests have historically been designed to help guide supervisory activity and enhance the PRA and insurers' ability to respond to future shocks.

Given the growth in pension buy-ins and buy-outs over recent years, the 2025 tests are specifically focused on the largest bulk annuity insurers[2] and are the first under the Solvency UK regulatory regime. The PRA recognises the importance of these insurers to pension schemes and their members, as well as the increasingly material role these insurers play in UK long-term investments. The 2025 exercise introduces some new stress test scenarios and unlike previous exercises, which have only disclosed results at an industry level, the outcome of the core stress tests has also been published at an individual insurer level.

Scenario overview

Under Solvency UK, insurers are required to hold sufficient capital for a 1-in-200 stress over a one-year period. Insurers also hold capital buffers designed to withstand foreseeable shocks whilst retaining a sufficient level of capital coverage above the regulatory minimum. These capital buffers are over and above the amounts that are held to meet the day-to-day cashflows required to pay member pensions. Target solvency coverage ratios (the ratio of capital resources to regulatory capital requirements) are typically in the range of 140% to 190%, with most firms operating well above target in the past two to three years. The PRA has set the core stress test scenario in order to achieve a roughly 1-in-100 severity, with the results showing the impact on capital coverage ratios individually to insurers and on an aggregate basis across the sector.

Core scenario

The core scenario is examined over the course of **three stages** as follows:

Stage 1 – Initial market shock

Overview: Rapid financial market shock

Further detail: Interest rates fall 150bp nominal/75bp real, equities fall 30% with increased volatility, credit spreads widen (eg BBB +270bp).

Stage 2 – Developing market shock

Overview: The stresses in stage 1 develop further to peak during stage 2

Further detail: Credit ratings fall and defaults occur, property values fall c.30%.

Stage 3 – Markets stabilise

Overview: Markets stabilise and liquidity improves

Further detail: Credit spreads fall but remain elevated compared to base case (eg BBB +100bp vs base case); insurers are required to model certain restorative steps.

The **exploratory scenarios** are designed to assess what the PRA deems to be emerging risks: asset type concentration and funded reinsurance. Given these emerging risks are harder to consistently assess and quantify, the results of the exploratory scenarios are only being published at an aggregate level and not at an individual one.

[2] The tests covered the main insurance entities within Aviva, Canada Life, Just, L&G, M&G, PIC, Rothesay, Standard Life and Scottish Widows. The individual results in this report only cover the entities directly active in the bulk annuity market, covering over 90% of overall market bulk annuity liabilities.

Exploratory scenario 1: asset type concentration

This scenario builds on the core scenario and considers an additional credit downgrade stress to the asset type most material to an insurer's matching adjustment benefit, ie to the asset class that provides them with the greatest amount of risk-adjusted yield (allowing for both the level of the yield and the amount of the asset type held). All participating insurers produced this scenario.

Exploratory scenario 2: funded reinsurance

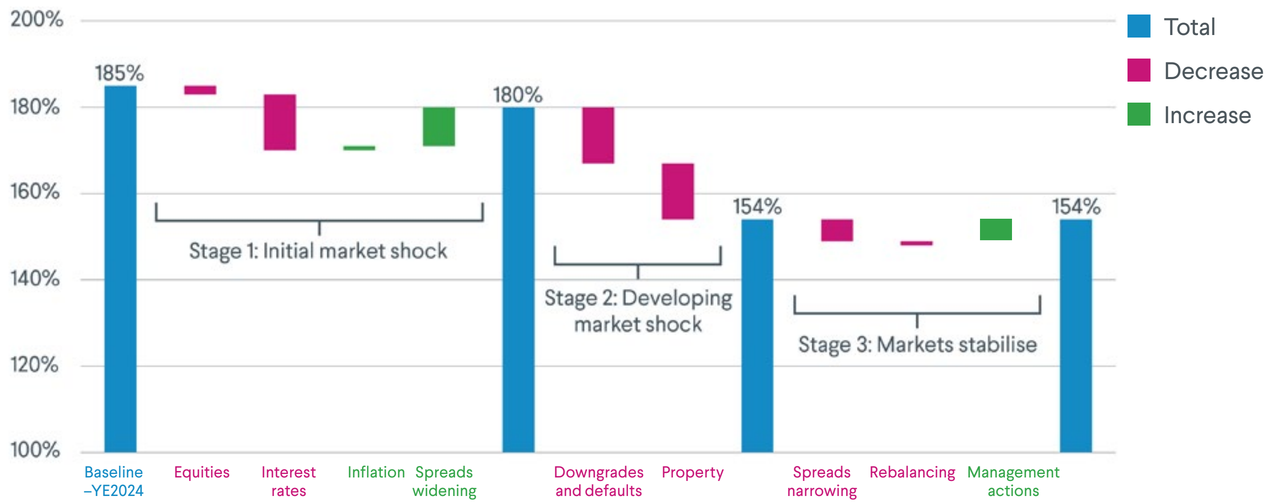
This scenario also builds on the core scenario and considers the impact of a recapture of all funded reinsurance arrangements with each insurer's most material funded reinsurance counterparty. Only insurers with material exposures to funded reinsurance participated in this scenario.

The results

Core scenario – aggregate

From an initial overall industry aggregate solvency coverage ratio of 185% for participating insurers at 31 December 2024, the adverse economic scenario stresses of the core scenario (set out in the table on previous page) reduced this to 154%. All participating firms retained in excess of 100% of the regulatory capital requirements. The chart below illustrates the evolution of the aggregate solvency coverage ratio throughout the core scenario stresses.

Movement in industry aggregate solvency coverage ratio (%)



Source: Bank of England

The results show a reduction of solvency coverage ratio of 5% under **Stage 1**. Whilst the interest rate stress of 150bps has a reasonably material impact of a c. 10% reduction to the solvency coverage ratio, this is largely offset by an increase driven by the stress of widening of credit spreads.

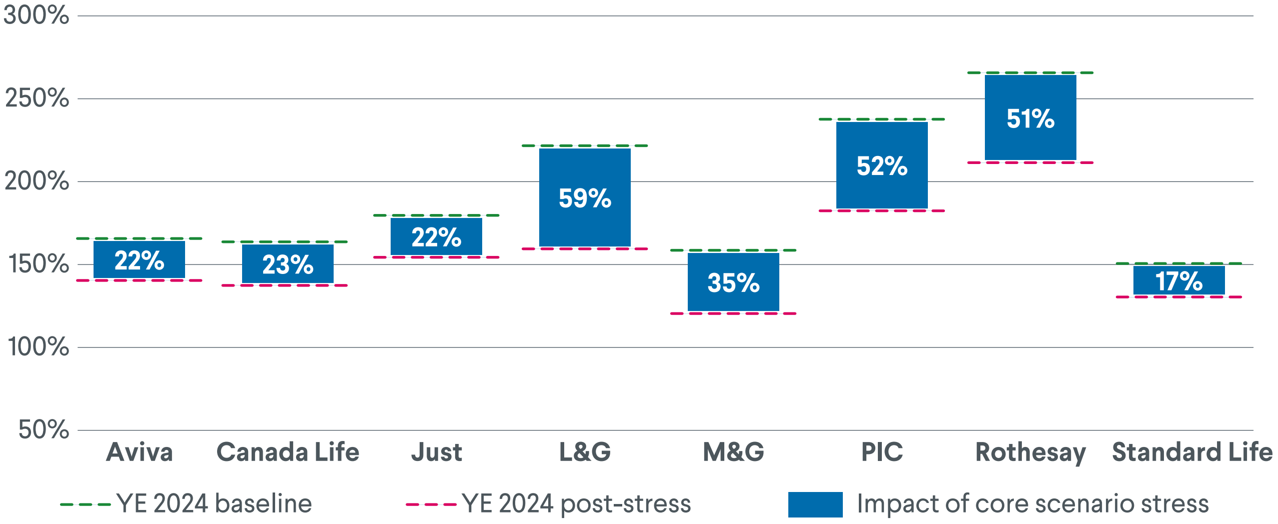
The **Stage 2** stresses, which represent further development of the Stage 1 stresses until they reach a peak, have the most material impact on the aggregate solvency coverage ratio, resulting in a 26% reduction. This is perhaps not surprising given how material both credit and property assets (primarily via Equity Release Mortgages) are to annuity provider portfolios.

Stage 3 stresses had a relatively low impact on the overall position, primarily as this stage reflects a partial stabilisation of the markets and allows the insurers to reflect management actions.

Core scenario – individual results

The following chart sets out the impact of the core scenario on those insurers participating in the stress test that are active in the bulk annuity market.

Impact of core scenario stress on YE 2024 insurer solvency coverage ratio (%)



Source: Bank of England

Individual results: our analysis

The individual results demonstrate a resilient bulk annuity market, with all insurers remaining well capitalised following the core stress scenario.

It's difficult to draw direct comparisons between the insurers as a result of the stress tests given the number of variables that appear to be impacting the results. Indeed it would be inadvisable to rank insurers, either on the basis of the size of the drop in their solvency, or on the absolute size of the solvency position following the stress. The scenarios applied represent one of countless possible outcomes and impacts vary due to differences in circumstances applying to each insurer. The PRA has acknowledged this as a limitation of the findings. In particular:

Business mix

The business mix, including whether the insurer is a multi-line or mono-line, will impact the results. The impact of with-profits funds also serves to dampen some of the impact as the surplus within the with-profit fund can be used to absorb some of the losses of the stress. The LIST focuses on regulatory ratios rather than shareholder ratios which seek to strip out the impacts of with-profits funds (applicable to Aviva, M&G and Standard Life).

Reinsurance strategy

Insurers' reinsurance strategies (which risks they choose to retain, and which they pass to others) will also have an impact. Simply put, the more risk that the insurer has chosen to retain, the greater the impact of the stress.

Investment strategy

The stress is a single scenario, so will impact different asset and business mixes in different ways. For example, Equity Release Mortgages (ERM) were subject to one of the largest stresses under the core scenario (28% impact on residential property prices). Those insurers holding large proportions of ERM would have seen a more material stress impact. While the bulk of insurer assets match their liabilities, the assets they hold to back the capital requirements plus any buffer over and above these may not be fully hedged against changes in market levels. Indeed, **our own analysis has shown that the fall in interest rates within the stress is one of the larger contributory factors** to some of the differences that can be seen between insurers. This will be driven in part by the insurer's chosen approach to hedging the interest rate exposure of their surplus and capital requirements, noting that some insurers are more relaxed about higher sensitivity to market changes given current high levels of solvency.

Management actions

Management actions are decisions and strategies that insurers can employ to manage their risk exposure and financial position. It's important to note that the PRA restricted the types of management actions that could be utilised as part of the core scenario, which may not necessarily represent the course of action that an insurer would take. For some insurers the most pertinent of these is the use of additional support from group companies. Specifically, M&G plc have highlighted that at a Group level their results would have seen a shift downwards from 223% to 171%, a 52% reduction in solvency coverage ratio. Standard Life have indicated their Group result would have started at 172% and ended at 155%, a fall of 17%.

Exploratory scenario 1 results: asset type concentration

Exploratory scenario 1, which applied a 20% credit rating downgrade shock to the most material asset held (excluding corporate/sovereign credit exposures), found that the solvency coverage ratios across all firms fell a further 1% from the core scenario ie to 153%. For most insurers this was the result of additional stresses being applied to their Equity Release Mortgage portfolios. The report notes that these assets account for 16% of overall industry allocation. The small impact of the stress could indicate that the insurance portfolios are well diversified to absorb such a stress. Although, the PRA caveat that the test is likely to underestimate the impact of interconnectivity of risks. The test by design does not allow for the correlation of risk factors and their impact to asset classes but instead applies a downgrade stress to asset classes in isolation. This is something which the PRA have indicated they plan to consider further for future stress tests.

Exploratory scenario 2 results: funded reinsurance

Exploratory scenario 2 required those insurers with material funded reinsurance exposures to apply a scenario whereby their most material counterparty defaulted. They were also required to recapture the transferred risks back onto the balance sheet. The aggregate results showed a 10% reduction in aggregate solvency coverage ratios relative to the core scenario ie a reduction in aggregate solvency coverage ratio to 144%. There are two key contributors to the change in headline rate:

1) An increase in the capital required to be held as a result of risks, notably longevity and credit risk, being recaptured onto the balance sheet.
2) A proportion of the collateral assets supporting the transaction not being eligible under the Matching Adjustment (MA) framework. The PRA has noted that most of the collateral being recaptured was deemed to be MA eligible so this can be considered a small contribution to the overall reduction to the aggregate solvency coverage ratio.

The findings highlight the importance of MA eligible assets within the recapture portfolio, enabling insurers to reintegrate assets and liabilities into their existing MA portfolios. However, the PRA did note that where transactions and collateral pools potentially become more complex as the market develops, the impact of this feature may become more material.

As noted earlier in the report, one notable statistic coming out of the exercise was that c. £12.3bn of funded reinsurance[3] contracts were recaptured under the stress scenario, which represents c. 50% of exposures. This figure suggests some insurers have relatively concentrated exposures to single reinsurers. However, it should be noted that the results didn't disclose the extent to which there is overlap between these reinsurers (to the extent there is overlap, this could introduce some systemic risk). We estimate that the total exposure[3] of all eight insurers to funded reinsurance is c.6%, or c.9% when considering only those insurers that have funded reinsurance exposures.

The PRA's conclusion as a result of the exploratory scenario encourages insurers to develop and maintain stress testing capability in relation to recapture of funded reinsurance arrangements.

What does this mean for pension schemes?

The aggregate and individual insurer results demonstrate a resilient bulk annuity market that should give comfort to trustees looking to enter into or already holding a bulk annuity contract. Trustees should also take comfort from the fact that the PRA is regularly stress testing insurers and from the resilience of the sector shown by the results of LIST 2025.

We welcome the transparency now offered as a result of the tests, but note there are many limitations, which the PRA have acknowledged. Seeking to optimise the process over time to allow greater comparison would be welcomed as well as publication of results of the exploratory scenarios at an individual level.

[3]Funded reinsurance exposures are consistent with those used for LIST 2025, which considers agreements entered into since 2016 and excludes intra-group reinsurance.

The regulatory outlook for 2026

Our final section concludes with some of the hot topics that could be brought to the fore in 2026. As the regulatory landscape evolves for insurers, we look forward to analysing further developments and what they mean for pension schemes.

Funded reinsurance

Following the funded reinsurance roundtables held in 2025, we expect there may be further feedback from these sessions and an industry consultation in 2026.

Alternative life capital

In November 2025, the PRA issued its discussion paper exploring alternative sources of capital for UK life insurers beyond traditional equity and debt. Given the growth in the annuity market and the associated capital needs, the PRA is looking to spark discussion with insurers and other stakeholders around innovation in this space. Responses are due from stakeholders in February 2026.

Solvent Exit Planning for Insurers

In December 2024, the PRA introduced new requirements for insurers to regularly prepare Solvent Exit Analysis as part of their business as usual activities. The PRA's motivation for the new requirements is to ensure that insurers can cease their insurance business, in terms of ceasing to write new business and running-off their existing policyholder liabilities, while they're still solvent. This means they must be able to discharge their policyholder liabilities out of their own financial and non-financial resources. Insurers are expected to be compliant with this new requirement by June 2026.

Solvency Triggered Termination Rights Review

The PRA is expected to issue a follow up review in 2026 which will reassess how firms have implemented risk mitigations and how exposures have changed.

Glossary

Matching Adjustment (MA): is a fundamental component of pricing in the bulk annuity market. Without it, the cost of a buy-in or buy-out would be prohibitive to pension schemes. It allows insurers to discount their liabilities using the asset yield of the investments that back these liabilities, less an allowance for credit risk known as the 'fundamental spread'.

Prudential Regulatory Authority (PRA): is a part of the Bank of England responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers, and major investment firms in the UK. Its primary aim is to promote the safety and soundness of the firms it regulates, contributing to the stability of the financial system and the protection of policyholders.

Solvency Coverage Ratio: is a key financial metric used by insurers to measure their capital strength. It is calculated as the ratio of an insurer's own eligible capital resources to its required regulatory capital, as set out under Solvency UK. A ratio above 100% indicates that the insurer holds sufficient capital to meet its obligations to policyholders and absorb financial shocks, thereby supporting both policyholder protection and the overall stability of the insurance sector. Target working ranges are typically between 140% and 190%.

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Solvency II: is the European Union-wide regulatory framework that governs the capital adequacy and risk management requirements for insurers operating within the EU. Introduced in 2016, Solvency II aimed to ensure that insurance companies maintained sufficient capital to reduce the risk of insolvency, thereby protecting policyholders and promoting stability within the financial system. Following Brexit, the UK has adapted these requirements under its own Solvency UK framework.

Solvency UK: refers to the post-Brexit regulatory framework governing the capital and risk management requirements for UK insurers. It builds upon the principles of Solvency II but adapts them to the UK market, aiming to ensure that insurers maintain sufficient financial resources to meet their policyholder obligations and withstand financial shocks. The regime is designed to promote policyholder protection and the overall stability of the UK insurance sector.

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