

Dive into pensions de-risking

Funded reinsurance: a fundamental rethink

On 29 April 2026, the Prudential Regulation Authority (PRA) proposed sweeping changes regarding the use of funded reinsurance in the bulk purchase annuity market.

What is funded reinsurance?

When entering a funded reinsurance contract, 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 based overseas. The reinsurer then provides benefit payments to the insurer, and the insurer passes these payments on to the pension scheme or, following buy-out, the pensioners directly.

As part of a funded reinsurance transaction, 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 in simple terms is that before (or, failing that, at) the point of a reinsurer failing, the insurer can step in and take control of a portfolio of assets that they can then use to back the liabilities themselves – this is known as a “recapture”.

The PRA has been exploring risks associated with funded reinsurance for some time, and in the Life Insurance Stress Test exercise conducted in 2025, they included a scenario focused on these risks.

What was outlined in the recent consultation?

The PRA has concluded that the current regulatory framework does not properly reflect the risks associated with funded reinsurance and they are concerned that without change, it could impact the resilience of the UK insurance sector over time. The [consultation paper](#) proposes changes that are intended to rectify this, with such changes only applicable to funded reinsurance implemented from October 2026 onwards.

Currently, the PRA believes that insurers are required to hold capital of around 2-4% in respect of liabilities reinsured on this basis, while they note that similar non-reinsurance investments would attract a capital charge of around 11-15%. Under their proposals, the capital for funded reinsurance would rise to around 10%. The specific amount of capital required would vary depending on the strength of the reinsurance arrangements. This assessment would consider the credit rating of the reinsurer and three aspects of the collateral assets backing the reinsurance: the level of these assets, the extent to which their cashflows match those of the underlying liabilities, and their credit quality.

What does this mean for pension schemes?

The proposed increases to capital held in respect of any funded reinsurance entered into from October 2026 onwards will improve the resilience of the insurance sector. However, the additional capital required would make funded reinsurance more costly, and potentially to a level where it loses its appeal entirely. Insurers

will need to work through the details to better understand the impact on their reinsurance strategy and buy-in pricing. Assuming the changes are implemented as proposed, all else being equal we would expect to see an increase in average buy-in pricing from October 2026 onwards, as the majority of insurers do currently make use of funded reinsurance. At this stage, it's too soon to estimate the impact this may have, and it's important to note that the most competitive price in a buy-in process is not always backed by funded reinsurance – some insurers do not use it at all, and others use it selectively.

Longer-term, insurers and reinsurers may adapt to regulatory changes to make reinsurance arrangements more capital efficient, which may mitigate some of the cost implications.

Pension schemes holding a buy-in

For pension schemes with buy-in policies, the proposals should be seen positively, as they would maintain or enhance policyholder security.

Pension schemes considering buy-in

For pension schemes actively looking at a buy-in, the impact will depend on the timing of the buy-in. Insurers who use funded reinsurance will stop factoring it into their pricing at some point before October, as it typically takes some time to implement following the buy-in itself. As a general guide, if the buy-in is due to proceed during Q2 2026, we do not anticipate any impact. However, if it's due to proceed during Q3 2026, particularly towards the end of the quarter, we would encourage early engagement with insurers to understand whether and when there is likely to be an impact.

For pension schemes considering buy-in over a longer time period, it will be a case of waiting to better understand the extent to which any changes impact buy-in pricing.

Pension schemes and sponsors considering captive insurance structures

A captive is a bespoke structure that retains pension scheme risk with the pension scheme sponsor's group of companies. Since the captive is often acting as a funded reinsurer, the proposed changes would likely make such a structure more expensive. The level of additional costs would depend on the specific features of the captive, for example whether it's a rated entity.

What happens next?

The consultation period closes on 31 July 2026, with only a two-month window until the proposals are due to come into force. We will continue to monitor developments and keep you informed of any changes.

Get in touch

If you have any questions about anything covered, please don't hesitate to [get in touch](#).



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