September 2025

Dive into pensions de-risking

Latest on funded reinsurance

On 18 September 2025, Vicky White, Director for Prudential Policy at the Prudential Regulation Authority (PRA) highlighted the ongoing focus on the use of funded reinsurance in the bulk purchase annuity market.

What is funded reinsurance?

When entering into 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 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 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 (a "recapture").

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 (see our update).

What was outlined in the speech?

The primary focus of the speech was the capital treatment of funded reinsurance transactions. 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 are 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.

In addition to capital considerations, the speech highlighted two areas that could negatively affect a key PRA objective relating to supporting competitiveness and growth within the UK:

- Assets in funded reinsurance collateral are predominantly non-UK assets, potentially diverting investment away from UK productive assets.
- Funded reinsurance may be used by insurers to outprice competitors on the basis of the favourable regulatory treatment.

Finally, the speech reiterated various powers that the PRA may invoke in relation to funded reinsurance – explicit regulatory restrictions or limits on the amount and structure of funded reinsurance, or measures to address any underestimation of risk, or potential regulatory arbitrage.

What does this mean for pension schemes?

At this stage, there is likely to be little impact for pension schemes. While insurers have been working with the PRA to demonstrate compliance with the new requirements for funded reinsurance, a watching brief should be maintained as the tone of the speech indicates a potential shift in regulatory approach. The PRA will hold roundtables with stakeholders in autumn to explore whether rule changes are needed. The focus is on future-proofing the regulatory framework to ensure resilience and protect policyholders.

Get in touch

If you have any questions about anything covered, please don't hesitate to get in touch.

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