PRA Scrutinises Funded Re Whilst Exploring Innovation in Capital Provision

23 September 2025

Background. On 18 September 2025, Vicky White, the Director for Prudential Policy at the Prudential Regulation Authority (the "PRA") of the Bank of England, delivered a speech at the Bank of America Annual CEO Conference. The speech addressed the evolving role of the UK life insurance sector in meeting demographic challenges and supporting investment in the wider economy, with a particular focus on the growing use of Funded Reinsurance ("FundedRe"). While such structures can help firms manage risk and access new pools of capital, the PRA cautioned that their increasing prevalence may introduce vulnerabilities that need to be addressed.

Funded Reinsurance: Growth and Risks. FundedRe has become an attractive tool for firms, particularly as the Bulk Purchase Annuities market has grown in recent years, since FundedRe provides additional capital flexibility and access to asset classes not always available directly. The PRA also observed that the ability to leverage differences in reserving approaches, capital requirements and investment flexibility may have contributed to its appeal but this is an area of concern for regulators.

The speech underlined a number of supervisory concerns, most notable being (i) due to the complexity and lack of transparency in FundedRe arrangements, the potential to increase the fragility of parts of the global insurance sector arises if the underlying vulnerabilities are not addressed and (ii) bundled "reinsurance plus collateralised funding" FundedRe structures receive more favourable treatment under Solvency UK rules than economically similar exposures held outside a reinsurance wrapper. This inconsistency has the potential to distort investment incentives and also shift investment away from UK productive assets toward overseas collateral pools, which conflicts with the PRA's objectives of competitiveness and growth.

PRA's Supervisory Approach. The PRA's current supervisory approach to FundedRe is principles-based— it has highlighted the risks and set out clear expectations for UK insurers on the standards of governance and risk management appropriate for these types of transactions through Supervisory Statement SS5/24.

Building on this, the PRA is undertaking an active policy review. One key area under consideration is whether the investment component of FundedRe should be "unbundled", i.e., separated from the longevity reinsurance for valuation in the Solvency UK balance sheet, which would ensure consistent regulatory treatment across economically similar structures. Other options being explored include imposing explicit limits on the size or structure of FundedRe arrangements or introducing measures to address the underestimation of risk and potential regulatory arbitrage.

To inform these potential changes, the PRA will convene industry roundtables in autumn 2025, with any adjustments subject to consultation and, if implemented, applied prospectively — existing deals would be grandfathered. In terms of market surveillance, the 2025 life insurance stress test includes a FundedRe recapture scenario, with results to be published later this year.

Supporting Innovation and Capital. The PRA continues to support innovation in the UK life insurance sector. Recent steps include streamlining the matching adjustment process, supporting the use of firms' internal models to calculate their regulatory capital and introducing a mobilisation regime to encourage new UK market entrants. The Matching Adjustment Investment Accelerator ("MAIA") is a key initiative in this area, which is designed to facilitate greater investment in UK productive assets within matching adjustment portfolios. A policy statement on this topic is expected by the end of October 2025, after which the PRA will begin accepting applications for MAIA permissions.

Further, the PRA, in collaboration with HM Treasury ("HMT"), is also exploring reforms to the insurance special purpose vehicle ("ISPV") framework, as outlined in the recent Policy Statement PS9/25 and HMT's consultation on the Risk Transformation Regulations. These reforms aim to more efficiently enable third party capital investment in the UK insurance sector and, due to their short-term nature, have not been viewed as suitable for annuity-type businesses.

The PRA intends to explore if there may be ways that ISPV's could be used to unlock additional sources of patient long-term capital, potentially complement longevity reinsurance, and cover specific components of asset risk, and although prudential challenges remain for their use in annuity-type business, the PRA plans to consider how such structures could be made accessible to life insurers. The PRA plans to publish a discussion paper on alternative life capital options but has not yet specified a date.

Next Steps and Implications. The PRA's speech makes it clear that supervisory focus on FundedRe will intensify over the coming months. Although it has signalled that its approach will be consultative and proportionate, firms should anticipate meaningful changes to the regulatory treatment of FundedRe, with the PRA likely to align its approach with economically similar structures.

As such, proactive preparation will be essential to managing both risks and opportunities as the United Kingdom's prudential regime evolves. For firms, this means preparing now for the possibility of adjustments that could affect capital requirements, balance sheet management, and investment strategies. It will be important for firms to engage with the PRA in upcoming consultations and policy developments, and consider alternative funding options, including how ISPV's could be used, as reforms progress.

If you would like to discuss the potential implications further, please contact us.

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Please do not hesitate to contact us with any questions.

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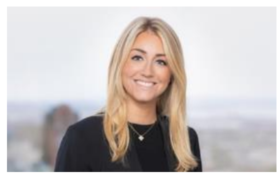

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