

Funded Reinsurance in the Spotlight

22 June 2026

Introduction

In recent years, the increased use of Funded reinsurance/asset-intensive reinsurance (“Funded Re”) globally has been coupled with increased regulatory scrutiny.

In February 2023, the Bermuda Regulatory Authority (the “BMA”) issued the consultation paper “*Proposed Enhancements to the Regulatory Regime and Fees for Commercial Insurers*” (known as “CP1”). In July 2023, it released a second consultation paper “*Proposed Enhancements to the Regulatory Regime for Commercial Insurers*” (known as “CP2”). The new rules introduced by CP1 and CP2, which became effective in March 2024, require BMA approval for all new block reinsurance transactions (including Funded Re) involving long-term commercial (re)insurers.

The supervisory statement “SS5/24 – *Funded Reinsurance*” published by the PRA in July 2024 set expectations for cedants entering into or holding Funded Re. The PRA’s concerns centred on, amongst other things, the matching adjustment eligibility of recaptured assets, the robustness of recapture rights and “wrong way risk” (the risk the same stresses affecting a reinsurer affect the collateral assets). In September 2025, the PRA, in a speech by Vicky White, began to consider the prudential treatment of Funded Re and considered “unbundling” the assets component from the longevity risk covered.

In July 2025, the National Association of Insurance Commissioners (the “NAIC”) Life Insurance and Annuities (A) Committee adopted Actuarial Guidelines LV (known as “AG 55”), which requires life insurers to use cash flow testing as the basis for determining whether the assets supporting Funded Re continue to be adequate under moderately adverse conditions. The first AG 55 reports were due on the 1 April 2026, following which the NAIC will reassess if a “disclosure only” approach is sufficient or whether additional reserves should be required.

In November 2025, the International Association of Insurance Supervisors published an issues paper on the structural shifts in the life insurance sector, noting two

interconnected trends: increased allocation to alternative assets in life insurers' portfolios and the rising adoption of cross-border Funded Re.

More recently, the Japan Financial Services Agency (the "JFSA") and the Prudential Regulation Authority (the "PRA") have each published further insights: the JFSA on its expectations for robust risk management by Japanese cedants, and the PRA, taking matters a step further, on how Funded Re will be treated as an asset on UK insurers' balance sheets.

This briefing sets out the JFSA and PRA proposals in detail and considers the potential impact on insurers and reinsurers executing this type of transaction. We also note that the European Insurance and Occupational Pensions Authority ("EIOPA") is expected to release a paper on Funded Re and consider what this might mean for the approach taken by regulators in Europe.

Market participants should note the trend towards international regulatory convergence in the Funded Re market, though we consider there still to be scope for structural innovation for this type of transaction.

Funded Re in Japan

The JFSA released proposed amendments to the Comprehensive Supervisory Guidelines for Insurance Companies on 8 April 2026 (with public comments having been accepted until 11 May 2026). The proposed amendments were in response to the trend of increased use of Funded Re by Japanese cedants and are therefore particularly focused on matters cedants should consider when entering into this type of reinsurance transaction. A key theme of the proposed amendments is the recognition that Funded Re is offered by a small number of reinsurers concentrated in specific jurisdictions, so many of the changes address the implications for cedants if a stress were simultaneously to affect all or some of those reinsurers and the assets posted by them as collateral.

The proposed amendments would require the following:

- **Policy reserves:** When determining the treatment of reserve credit (i.e. the reduction of policy reserves for liabilities ceded under a reinsurance agreement), cedants would be required to consider whether the reinsurance contract reliably transfers risk and whether there is a high probability of recovering reinsurance proceeds under the contract, taking into account the structure, economic reality and location of the risk transferred. Cedants would be required to consider factors such as:

- whether the economic value attributable to the cedant's share (e.g. the reinsurance proceeds relating to the reinsurance contract) may be impaired due to the discretion of the reinsurer or the contractual structure;
- whether the structure would result in the cedant bearing a substantive obligation to make up for losses, thereby causing the risk to revert to the cedant;
- whether the reinsurance contract could be terminated at the discretion of the reinsurer or as a result of events outside the cedant's control (e.g. such as change in regulation or tax laws);
- whether the segregation of assets (through pledge or trust arrangements) is effective and whether the residual risk that such arrangements are insufficient is mitigated;
- whether the speed of recovery could be impaired, e.g. by a decrease in the settlement frequency; and
- whether the primary purpose of the transaction is to finance new business rather than to provide substantive risk transfer.
- **Stress testing:** The proposed amendments would introduce stress testing scenarios relating to Funded Re (including those structured on a funds withheld basis) whereby the cedant would be required, as part of its risk management framework, to consider the impact of simultaneous recapture or reinsurer insolvency events, and the resulting impact on solvency margin ratios and the financial position of the cedant.
- **Risk management:** The proposed amendments detail substantial risk management considerations for cedants, particularly for Funded Re, including in relation to:
 - **Reinsurer financial soundness and concentration risk:** As noted above, the JFSA emphasises that reinsurance transactions may become excessively concentrated in specific jurisdictions or with specific reinsurers. Accordingly, the JFSA notes that cedants should conduct a thorough analysis of the financial soundness, asset management status and risk management framework of reinsurers to establish their own robust governance framework. These criteria should assess the relationship between the financial markets and the soundness of reinsurers, as well as the management of conflicts of interest by the reinsurer or its related parties, particularly with the increased involvement of private equity in reinsurance groups. The cedant would also be required to set, in its ceding policies, an upper limit on total reinsurance exposure, taking into account the

correlation of reinsurance exposures and the risk of simultaneous recapture and impairment to collateral value.

- **Collateral risk:** The proposed amendments would require that policies regarding collateral incorporate the following:
 - clearly defined criteria in the investment guidelines that ensure financial soundness, liquidity and diversification;
 - the isolation of collateral assets on insolvency;
 - regular monitoring of collateral balances, collateral composition and the valuation of collateral assets;
 - where retrocession is also utilised, monitoring (as necessary) the retrocession provider, taking into account that the financial soundness and concentration of the retrocession provider may affect the risk of the reinsurance contract as a whole;
 - protocols (such as haircut revisions and additional collateral calls), particularly in relation to collateral consisting of long-term or illiquid assets (as commonly used in Funded Re), that can assess liquidity and resilience to market fluctuations whilst also verifying the replenishment capacity of the collateral and recoverability in crisis scenarios (bearing in mind that such capacity may depend on the financial condition of the reinsurer);
 - the establishment of collateral withdrawal procedures and timelines upon recapture scenarios; and
 - the priority and enforceability of collateral in cross-jurisdictional contracts.
- **Recapture risk:** The proposed amendments note that Funded Re should provide for early-stage recapture if the reinsurer's financial condition deteriorates and include clear measures to ensure the recovery of assets on insolvency. In addition, any assets returned on recapture should be considered by reference to their creditworthiness, liquidity and type, and any need for post-recapture rebalancing. Finally, countermeasures should be put in place to account for short-term funding requirements that may arise if any of the pre-defined triggers included in the cedant's recapture policies (e.g. delayed payments or a reduced collateral value) occur.

What Is the Impact?

The themes of the JFSA's proposed amendments are consistent with the recent stance taken on Funded Re by other regulators, particularly the PRA, namely:

- The concentration and counterparty default risk posed by Funded Re, which can be concentrated in certain jurisdictions and with a small number of reinsurers.
- The related collateral risk if a financial downturn affects both the assets posted and the reinsurance counterparty.
- The need for robust risk management frameworks to manage the risks associated with Funded Re.
- A focus on strong recapture provisions, both in respect of early-stage triggers and the assets returned on recapture.

The proposed changes do not go as far as to impose counterparty limits or restrictions on the jurisdictions in which collateral assets are held. At this stage, the focus is equipping Japanese cedants to manage the risks appropriately. In our experience, Japanese cedants are already alive to these risks, and transactions typically reflect many (if not all) of the JFSA's expectations.

Going forwards however, we expect to see:

- more extensive due diligence requests from Japanese cedants on counterparty creditworthiness;
- diversification as between reinsurer counterparties becoming a greater priority;
- a continued focus on ensuring robust collateral arrangements (including on the amount of collateral provided, the frequency and approach to its valuation, the composition of investment guidelines and management of assets by affiliated investment managers); and
- heightened scrutiny from Japanese cedants on recapture triggers, procedures and timelines.

Scope still remains, in our view, for the use of innovative collateral structures and a broad range of collateral assets, so long as the relevant risk factors are considered and appropriately mitigated.

Funded Re in the United Kingdom

The bulk purchase annuity (“BPA”) market in the United Kingdom has grown exponentially in recent years, and as it has done so, Funded Re has become an attractive tool for UK insurers to access additional capital and a diverse range of assets which may not always be available to them directly.

On 29 April 2026, at the Westminster & City Annual Bulk Annuities Conference (“W&C”), Gareth Truran (Executive Director of Insurance Supervision at the PRA) delivered a speech alongside the publication of Consultation Paper CP8/26 on Funded Reinsurance. The PRA reiterated its ongoing concerns about (i) the underestimation of counterparty risks on UK insurers’ balance sheets arising from the monoline structure of Funded Re (when compared to the treatment of default on directly held assets); and (ii) the emerging risks associated with liabilities being ceded to a concentrated pool of reinsurers that are often offshore and may not necessarily back future claim payments in a way compatible with UK standards. In response to these concerns, the consultation proposes that UK life insurers using Funded Re hold capital which better reflects the risk of default by a reinsurer and the downgrade risk of assets held as collateral.

What Has the PRA Proposed?

Under Solvency UK, the value of the amounts recoverable under a reinsurance contract is represented as an asset on the cedant’s balance sheet, and the value of this asset is adjusted to reflect the expected losses due to the default of the counterparty (the “CDA”). The PRA has proposed changes to how the CDA is applied to the value of Funded Re transactions in order to align the treatment of Funded Re with economically similar assets that UK insurers would otherwise hold to back annuity liabilities. The proposed reforms look closely at the financial strength of the reinsurer and the specific collateral features to determine the CDA reduction applied to a Funded Re transaction.

- **Financial strength of the reinsurer:** The PRA has proposed that firms start with the insurer financial strength rating (“IFS”) issued for a reinsurer by an external credit assessment institution (“ECAI”). The IFS reflects the ECAI’s assessment of the reinsurer’s ability to pay policyholder claims by incorporating a range of factors including business diversification, the strength of the local regulatory regime and balance sheet strength. Where an ECAI IFS rating is not available for a reinsurer, the PRA proposes that firms use a credit quality step 3 rating, less one rating notch (equivalent to a BBB- rating).

- **Collateral contractual features:** Where the collateral arrangements meet the criteria set out in the Solvency Capital Requirement Standard Formula (Chapter 3G8 in the PRA Rulebook), the credit quality step implied by the ECAI-issued IFS can qualify for an upward adjustment of up to three independent notches, which are assessed against the contractual terms of the Funded Re transaction. The criteria for each of the independent notch upgrades are as follows:
 - **Adequate collateral:** Where collateral fully covers the premium at inception and is only adjusted for changes in market conditions and claims experience.
 - **Absence of the need for collateral transformation:** Where the collateral is 100% MA-eligible and any mismatch between the cash flows of the collateral and contractual cash flows of the reinsurance does not give rise to material risks.
 - **Credit-enhancing nature of collateral:** If the weighted average rating factor (“WARF”) of the worst-case collateral portfolio (being, assets with the lowest credit quality and largest cash flow mismatches under the reinsurance contract) indicates the collateral has a higher credit quality than the reinsurer.
- **Definition of Funded Re:** The PRA has proposed a definition of funded reinsurance to be included in the PRA Rulebook Glossary, as follows:

“a reinsurance contract under which a firm transfers to the reinsurer credit risk or market risk relating to annuity obligations that arise under contracts of insurance falling within long-term insurance business class I or obligations that arise under contracts of insurance falling within long-term insurance business class VI.”

This would include life insurance arrangements used to back annuity and capital redemption liabilities.

- **Intra-group and Part VII transactions:** The proposals will not affect intra-group Funded Re transactions which are used to manage the distribution and diversification of risks within the group. The criteria to be satisfied to benefit from this exclusion are set out in the new definition of “intra-group quota share funded reinsurance” as follows:

“funded reinsurance [see definition above] where:

- (1) *the firm and the reinsurer are part of the same group;*
- (2) *the funded reinsurance does not result in an increase in surplus capital at group level;*

- (3) *at least 50% of the risks in respect of the business within the scope of the funded reinsurance are retained by the firm;*
- (4) *the reinsurer is required to:*
 - a. *apply an investment strategy identical to that which the firm applies to the retained proportion; and*
 - b. *maintain systems and controls to ensure that its investment strategy does not diverge from that of the firm; and*
- (5) *when the funded reinsurance takes effect the present value of recoverables from the funded reinsurance plus any reinsurance commission payable under the funded reinsurance does not exceed the total amount of the premium for the funded reinsurance.”*

The proposals will also not affect interim reinsurance arrangements entered into between the two entities involved in a Part VII transfer process.

Responses to the consultation paper are due by **Friday, 31 July 2026**. The PRA then proposes an implementation date of 1 July 2027 for the new rules, and the proposals will not apply to any business executed prior to 1 October 2026.

What Is the Impact for Insurers?

The PRA notes that for the average Funded Re transaction, UK insurers currently hold capital worth 2-4% of the value of the annuity liabilities. Under the new proposals, the capital held would increase materially to around 10% (which the PRA contrasts against the 11-15% held for similar investments).

The effect of the proposals on insurers ultimately depends on the purpose for which they have historically used Funded Re:

- **Capital flexibility and BPA pricing:** The new proposals may reduce the extent to which insurers use Funded Re to reduce capital strain when writing new business, requiring them either to raise additional capital, reduce BPA volumes or adjust pricing. Accordingly, the new proposals are likely to temper the aggressive pricing seen in the BPA market among insurers that have been supported by Funded Re transactions and may reduce new business profits. However, many insurers are not reliant on Funded Re for competitive pricing, and some also will still have the option to distribute the risk within the group if the criteria for “intra-group quota share

funded reinsurance” are met. As a result, schemes will likely still have access to attractive pricing.

Insurers looking for capital flexibility may become increasingly interested in alternative capital structures which are not reliant on Funded Re. Last year, the PRA outlined the need for alternative sources of capital, including insurance special purpose vehicles, insurance-linked securities, synthetic risk transfers and life insurance sidecars. Life insurance sidecars have become increasingly attractive to third-party investors (such as private equity firms and asset managers) looking to participate directly in the life insurance market. The structure is capital efficient for the sponsoring insurer and gives the investor a share in the equity net of claims.

- **Diversification of the asset portfolio used for risk allocation:** In a discussion following the PRA’s speech at W&C, it was emphasised that the PRA’s approach to private assets, either held as collateral for Funded Re or held directly by insurers, is driven by risk and credit quality rather than whether the private asset originated outside the United Kingdom. However, the PRA is still wary of regulatory arbitrage and the matching of assets against liabilities in the UK insurance sector. The proposals clearly demonstrate this concern and may slow the drive for innovative collateral structures, encouraging a focus on UK investment in order to benefit from the notch uplifts. The perception in the BPA market that insurers are investing in private assets that have a likelihood of default is still to be addressed.

What Is the Impact for Reinsurers?

- **Highly rated reinsurers:** When the criteria above are applied, the PRA illustrates the range of impacts under the proposed rules by comparing the impact on an AA rated counterparty (with strong collateral controls, eligible for all additional notches and treated as AAA rated under the proposed rules) and a BBB rated counterparty (with weak collateral controls, not eligible for any additional notches and treated as BBB rated under the proposed rules). The CDA would reduce the value of the Funded Re assets on a firm’s Solvency UK balance sheet by:
 - 3% for the AA rated counterparty (compared to c.0.5% under firms’ current approaches); and
 - 13% for the BBB rated counterparty (compared to c.2% under firms’ current approaches).

The proposals are clearly in favour of the AA rated counterparty but still represent a material shift when compared against current positions. A weaker counterparty is only likely to present an economically attractive transaction proposal where the rating gap can be “bridged” to some extent using the notch-enhancing collateral features. However, these independent notch criteria themselves present commercial challenges. In particular, we expect it would be difficult for most viable counterparties to construct a collateral portfolio whose worst-case WARF is higher than its own credit quality.

In the round, we consider that the PRA’s proposals are likely to result in a smaller number of reinsurers being attractive counterparties for Funded Re transactions, somewhat ironically increasing the concentration risk which has provoked PRA concern.

- **Reinsurers backed by a guarantee:** With increasing interest from global asset managers in reinsurance, we often see new entrants being financially backed by a holding company in order to give the cedant comfort that the reinsurer’s obligations will be met on recapture. With the focus now being on the financial strength rating of the reinsurer, unless the reinsurer’s ECAI IFS rating benefits from the holding company’s credit rating, new entrants which are unrated will start at a BBB- rating and will look instead to benefit from the upward independent notches until they have an ECAI IFS rating. Given that new entrants are backed by asset managers, the concern over meeting the independent notches may differ from that for other reinsurers. We would expect cedants to continue to focus on rating-based termination triggers, both for reinsurers backed by a guarantee and more generally.

Europe

In Europe, EIOPA is expected to release a paper on Funded Re in the coming months, which may indicate the stance that European regulators will take on Funded Re arrangements. Whilst Funded Re in Europe outside the United Kingdom is less common, there is a growing recognition that it may play an important role for the development of new products but also supporting back-books and the growing pension de-risking market in the Netherlands.

The De Nederlandsche Bank (the “DNB”) has, however, already taken a firm stance on Funded Re since the beginning of 2025, requiring prior consent to enter into or amend Funded Re transactions if the reinsurance contract allows for assets to be held at any time outside the EEA. The consent requirement does not depend on the jurisdiction of the reinsurer but rather on where the assets are held. The DNB indicated in its July 2025

Q&A on the assessment of Funded Re contracts that the requirement may also apply where a reinsurance undertaking within the EEA retrocedes the reinsured risk outside the EEA through asset-intensive retrocession. The consent requirement would not apply if the reinsurance contract provides for (i) the exclusion of the transfer of assets to third countries; and (ii) the prevention of asset-intensive retrocession which could result in assets being held in a third country.

To date, we have primarily seen the Dutch market focus on longevity-only reinsurance transactions; however, the increasing number of buy-out transactions in this market stemming from local pension reforms may make the capital relief offered by Funded Re attractive to Dutch insurers (but subject to the DNB's oversight).

What EIOPA releases will therefore be interesting in light of that development, and it may help create a consistent approach across Europe in relation to the development of Funded Re market.

Conclusion

Funded Re transactions have long faced scrutiny from regulators internationally. Whilst the PRA is the first regulator to make specific changes to the prudential treatment of Funded Re, it will be interesting to see how other regulatory bodies respond. The pace of Funded Re transactions may start to slow towards the end of this year and early next year, with innovation in alternative forms of capital flexibility becoming increasingly attractive.

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Please do not hesitate to contact us with any questions.



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