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# IFoA Life Conference

**Evolving Landscape of the UK Funded  
Reinsurance Market**

**Wei Hou (Gallagher Re)**

# Agenda

- Market Overview
- Key topics of PRA Funded Re speech
- Working Party Discussions
- Funded Re Beyond the UK
- Q&A



Join at:  
**#ReinsuranceMarket**

# Market Overview

## The UK and Funded Reinsurance market in 2025

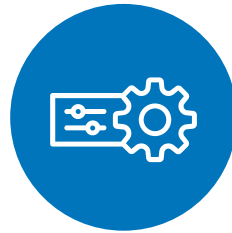
### The economic environment



2025 has been characterised by volatility and tightening spreads.

At first glance, one would expect this to have an inflation effect on BPA and Funded Re pricing.

### Pricing



Despite these challenges, front end BPA pricing has shifted towards 'G+X bps' rather than 'G-X bps' or flat reflecting a cheaper price for the buyer.

In turn, this raises the bar for Funded Re pricing.



### Funded Re working party

Following the SS5/24 release from the PRA last year, they have recently spoken sharing further concerns around the Funded Re structure, covering key topics such as:

- Collateral Investments
- Regulatory Arbitrage
- Collateralised Loan Treatment

We are eager to discuss these areas and share our insights to navigate the complexities of the current market.

# Collateral Investments



**Do you think Funded Re deflects  
asset investments away from the  
UK?**



**What proportion of assets in Funded Re transactions do you think are invested in the UK on average?**



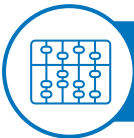
**Do you think Funded Re assets should be 100% invested in the UK?**

# Collateral Investments Summary

## Takeaway from the PRA speech

One potential concern for the PRA could be that Funded Re draws investment out of the UK.

## Our thoughts



**ALM Considerations:** For ALM matching, there is limited bonds in the UK market that can provide sufficient duration especially for deferred annuities.



**Risk Management:** Collateral investments outside of the UK offer diversification into different industries and sectors, reducing insurers specific risks.



**UK Investment:** Despite risk being transferred to different jurisdictions, most reinsurers still invest in UK assets.



# PRA Concerns on Regulatory Arbitrage



**Do you see Funded Re as a way of exploiting regulatory arbitrage? Please explain your answer.**



**Should we be more concerned about counterparty exposures or capital requirement levels?**

# PRA concerns on Regulatory Arbitrage

## Takeaway from the PRA speech

The PRA expressed concern that insurers could use regulatory arbitrage to enhance their capital position and investment capabilities.

## Our thoughts



### Funded Re vs. Other types of Reinsurance

Challenging other regulatory regimes could be a risky strategy, lots of different types of insurers cede risks to other jurisdictions so treating Funded Re differently would lead to inconsistencies



### Assessing other regulatory regimes

Counterparties in different jurisdictions are still regulated with set capital and ratings requirements, so risk isn't being ceded indiscriminately. There is some similarities in regimes, but they do not have to be exactly the same.

# Collateralised Loan Treatment



**Do you think counter party SCR treatment of Funded Re does not represent enough capital for the risk of Funded Re?**



**Do you agree with Collateralised Loan treatment of Funded Re? If not, could you suggest any alternatives? (break down to yes or no**

# Collateralised Loan Treatment Summary

## Takeaway from the PRA speech

The PRA is considering the decomposition of Funded Re transactions into collateralised loans and longevity reinsurance.

## Our thoughts

**Point 1:** Reinsurance and loans are not of the same nature; loans do not have the same level of credit security provided through the capital and risk regulation of reinsurers.

**Point 2:** There exists other reinsurance structures containing market risk elements. Implementing a change of decomposition would introduce large inconsistencies.

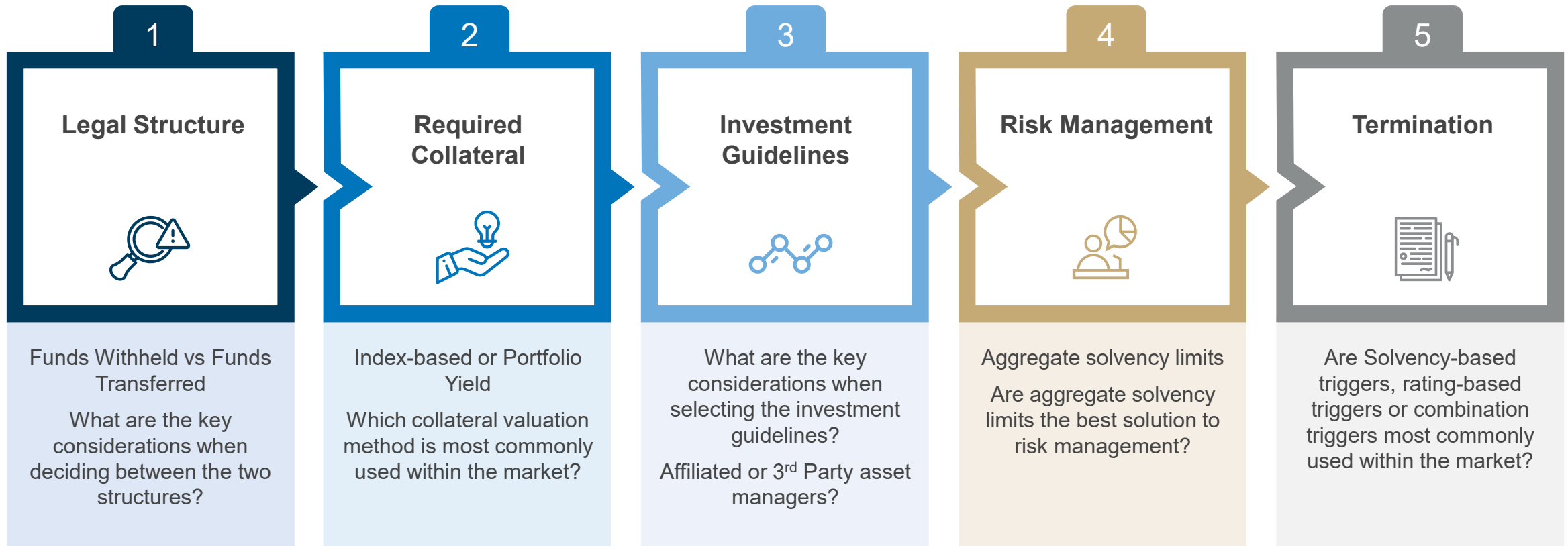
**Alternate proposal:** Look at how collateral assets deviate from liabilities under different scenarios. Capital requirements could be calculated as  $\text{delta} \times \text{default probability}$  or other methods that can be discussed.



# Funded Re Working Party Discussions

# Funded Re Working Party Discussions

As a working party, we have identified 5 key areas that we believe are crucial to address in the evolving Funded Re landscape



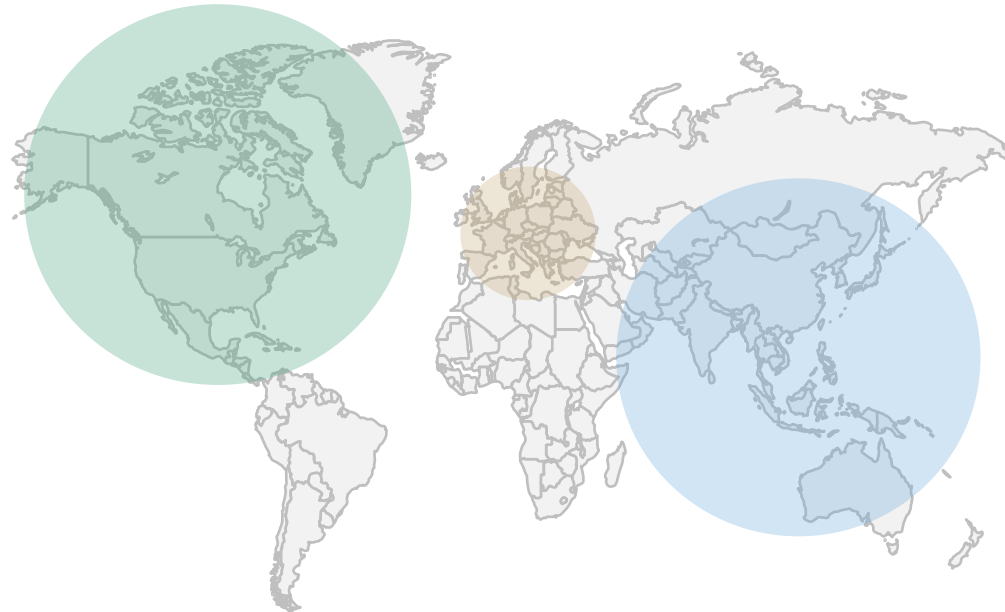
# Funded Re Beyond the UK

# Looking Forward

## Funded Re beyond the UK

### Continental Europe

- Consistent framework is not yet in place from local regulators.
- Unique challenging product features including:
  - Discretionary/mandatory profit sharing
  - Local GAAP accounting knowledge required
- Products are typically capital intensive savings products with high guarantees where Funded Re can remove some of the interest rate risk.
- Significant potential and there is strong interest from European insurers who are beginning to or already exploring Funded Re.



### APAC

- Fast-developing.
- Key markets include Japan, Hong Kong and Singapore. Interest is now coming from China.
- Products include whole/term life, annuities and endowments.

### USA

- Most mature Asset Intensive reinsurance market globally.
- Highly Saturated.
- Products include life insurance, annuities and long-term care.



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# Thank you

For more information, contact:



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## Audience Q&A

① The Slido app must be installed on every computer you're presenting from