

Bank of England

FundedRe

Industry roundtable 1

29 September 2025



Purpose and agenda

Purpose – from Vicky White’s speech of 18 September

“We’ll be holding roundtables later this autumn to get to a common understanding of the issue and decide if the right course of action is to change the rules to ensure a consistent treatment across economically similar structures. We want to explore whether the current bundled treatment of the components of a FundedRe transaction accurately reflects the risks. The key focus for us is seeking insight as to whether the investment component of FundedRe should be ‘unbundled’; in other words, separated from the longevity reinsurance for valuation in the Solvency UK balance sheet.”

Funded realignment: balancing innovation and risk – speech by Vicky White | Bank of England

Agenda

- Introductions
- FundedRe compared to a collateralised loan plus longevity reinsurance
- How might an unbundled treatment work in practice?
- Questionnaire

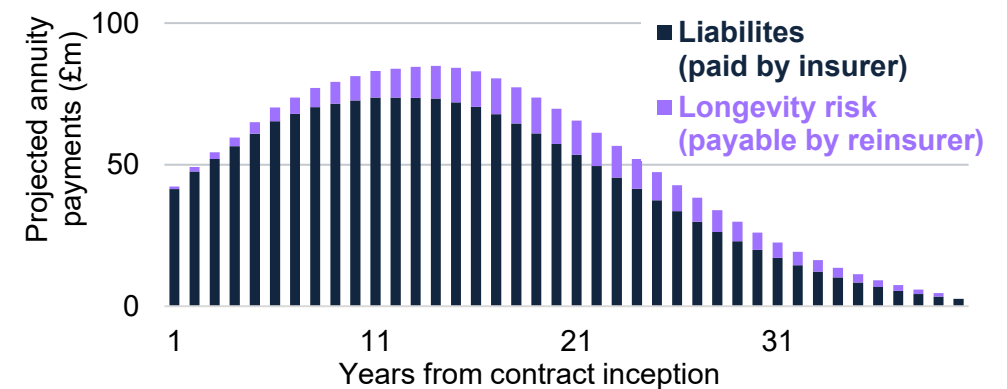


FundedRe compared to a
collateralised loan plus longevity
reinsurance

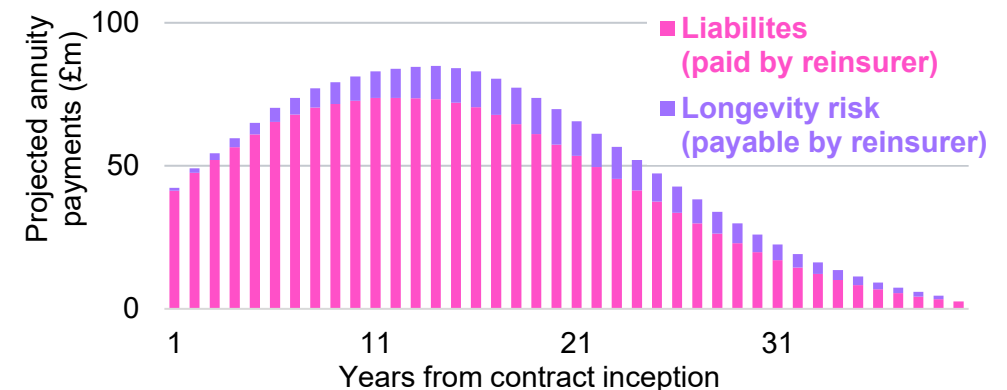
Similar economic profile of loan + longevity reinsurance and FundedRe

- In a **longevity reinsurance** transaction, “smaller payments flow either way from reinsurer to cedent over the lifetime of the contract”.
 - This covers actual deviations in experience (in purple) from central assumptions, but these do not include the expected pension payments.
 - Expected pension payments are paid out of the proceeds of a portfolio of loans and bonds.
- With **FundedRe**, “the reinsurer receives one upfront premium and is thereafter on the hook to pay its share of pension liabilities.”
 - This funding part (pink lines) performs the same function as the investment asset or portfolio above (black lines).

The reinsurer pays when longevity risks crystallise...



In FundedRe, the reinsurer pays its share of the pension...



Similar layers of protection to collateralised loan

- The funding element of FundedRe is fixed, representing the payment of pension liabilities. As a fixed cashflow instrument, it shares similarities with a collateralised loan.
- The direct exposure of the cedent is to the counterparty's balance sheet and its financial strength.
- FundedRe provides additional protections, similar to those found in collateralised loans. The collateral is an indirect exposure, as is the security in such loans.

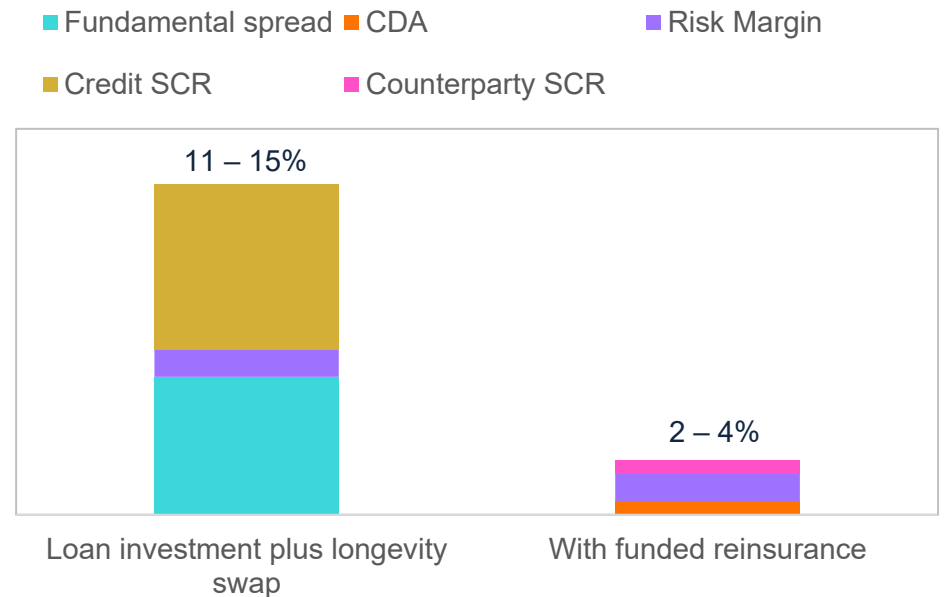
Example of similar layers of protection between FundedRe and a collateralised loan

	FundedRe	Collateralised loan
Layer 1: Direct exposure	Counterparty balance sheet	Loan issuer balance sheet
Layer 2: Contingent security	Collateral assets held in trust	Security held
Layer 3: Pre-default protection	Early recapture triggers	Loan covenants (interest cover, LTV)

Sol UK treatment of collateralised loan + longevity reinsurance vs FundedRe

- Being classified as 'reinsurance', FundedRe receives a very different regulatory treatment compared to a portfolio of a collateralised loan + longevity reinsurance.
- Solvency UK requires capital to be held against loans by an insurer, for retained risks including downgrade and defaults.
- However, FundedRe, as currently structured, does not attract a similar charge for the loan component.
- The two transactions have similar economic impacts but attract very different Sol UK treatments.

Illustrative difference between FundedRe and loan + longevity reinsurance/swap (% of best estimate liabilities)

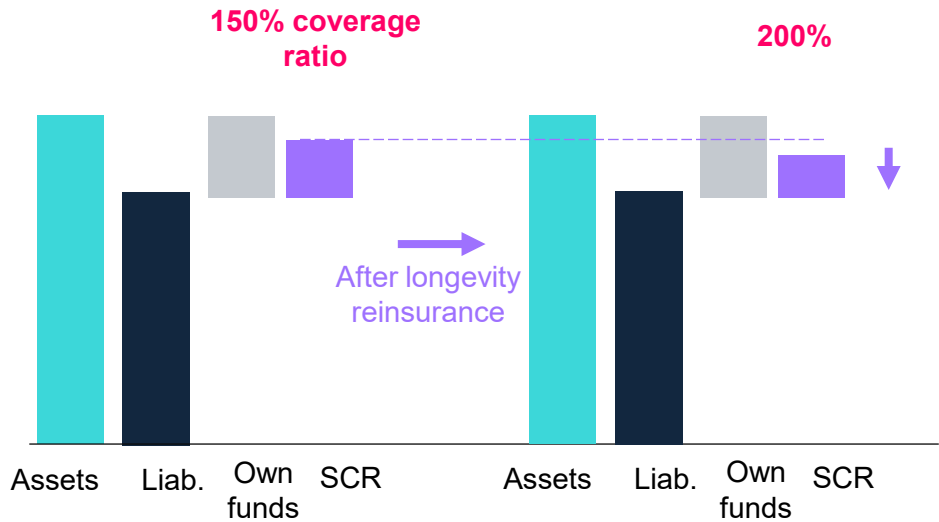


This is for illustration only, to show the relative importance. The actual numbers will depend on the nature of the liabilities and current market conditions.

CDA = Counterparty Default Adjustment
SCR = Solvency Capital Requirement

Illustrating the balance sheet impact of the different treatments

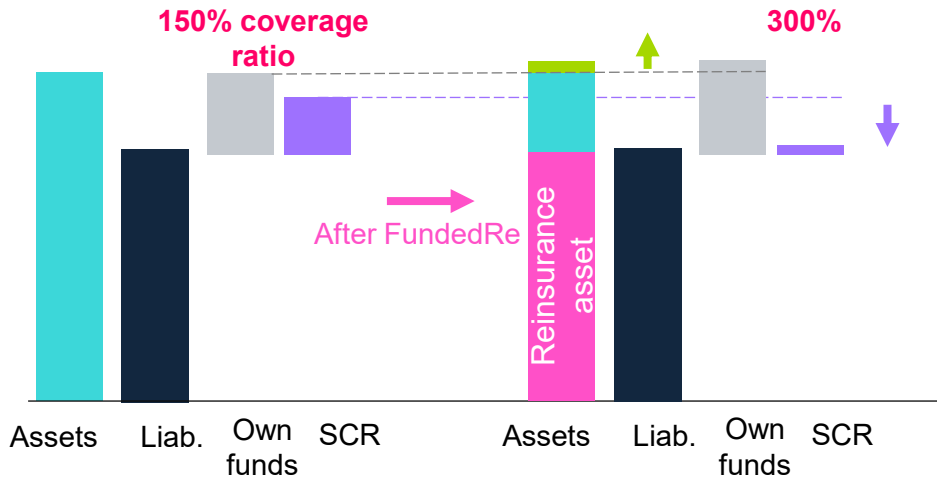
Longevity reinsurance leads to lower capital requirement for longevity risk only, with limited impact on own funds



Since longevity reinsurance deals are often struck at par, the value of the reinsurance asset is very small. As a result, longevity reinsurance has a limited impact on the cedent's balance sheet.

Figures for illustration only.

FundedRe leads to lower capital requirements for credit and longevity risks, the recognition of a reinsurance asset at risk-free and a day one profit (increasing own funds)



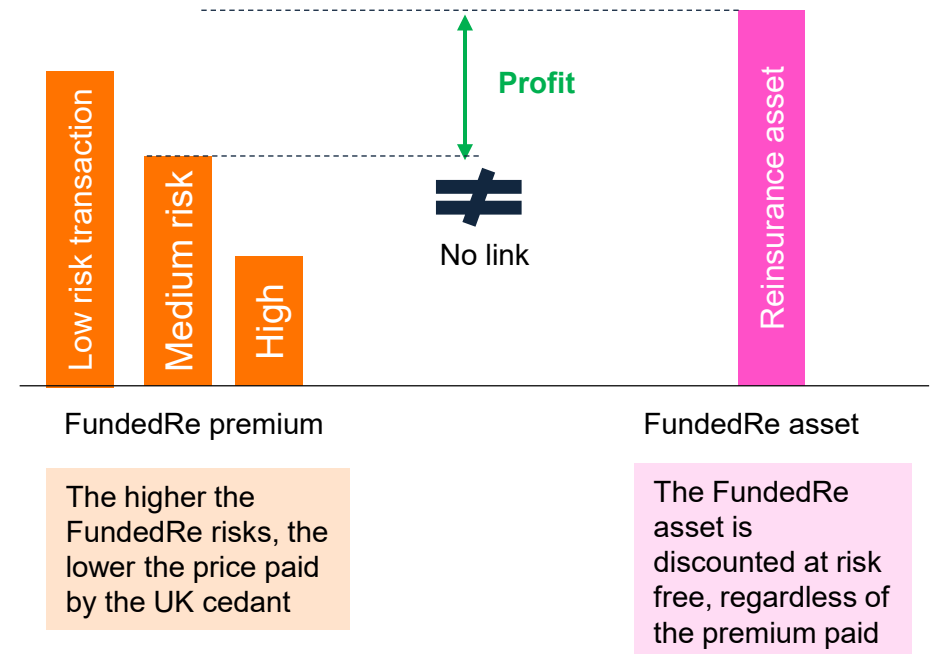
Sol UK recognises a reinsurance asset with a value unrelated to the premium paid. In fact, a 'day 1 profit' often arises because the asset recognised on the Sol UK balance sheet is larger than the premium paid to the reinsurer.

Disconnect between price and reinsurance asset exacerbates the discrepancy

- “The additional value that the reinsurer provides in this transaction, beyond its role as a capital provider, is a collateral wrapper, transforming unstructured and risky collateral into the funding required under the FundedRe contract.”
 - In Sol UK rules, the reinsurance recoverable asset is valued almost entirely at the risk-free rate, bar an often negligible CDA.
- “By extending the label of ‘reinsurance’ to this funding component, Solvency UK treats it as essentially a risk-free construct.”
 - This means that, what a UK insurer pays for the FundedRe is not linked to the reinsurance asset recognised on its balance sheet.
 - Generates an opportunity to create value from transferring risks.
 - Strong risk management discipline needed to avoid accepting a higher risk transaction to obtain a better price.

Premium is often inversely related to the FundedRe risks


The difference between the asset recognised and the FundedRe premium crystallises a ‘day 1 profit’



Roundtable questions 1/3

Comparison between FundedRe and a collateralised loan + reinsurance

- What do you see as the key similarities and differences between FundedRe and a bundle of collateralised loan + longevity reinsurance?
- How different should the Solvency UK treatment of these transactions be?

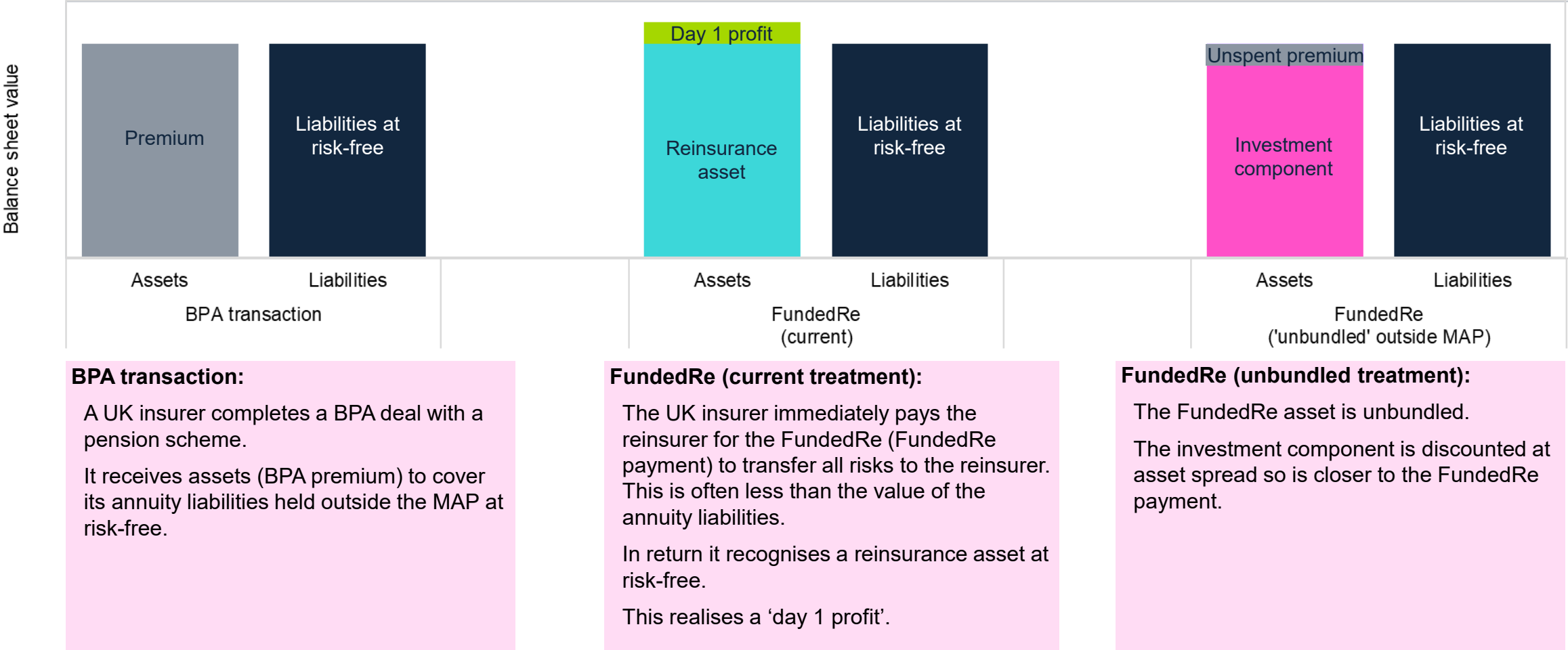


How might an unbundled treatment
work in practice?

Unbundling – one way to re-establish a link between asset valuation and premium

- Unbundling could involve a separation of the two components of FundedRe for valuation purposes.
 - Two components: an investment asset and a longevity swap.
- The investment component would be valued at fair value like other investments:^[1]
 - The asset could be valued using an estimated investment spread.
 - Unbundling would allow the investment component to be treated as any other asset while preserving the reinsurance treatment for the risk transfer component.
- Unbundling could allow us to rebuild the link between the asset value on the regulatory balance sheet and the FundedRe premium paid. A day 1 profit would be unlikely as a result.

Walkthrough of the unbundling approach for a FundedRe transaction (outside the MAP)



Roundtable questions 2/3

Identifying the components within a FundedRe asset

- How feasible is it to separate the reinsurance cashflows between a fixed investment component and a variable risk-transfer?

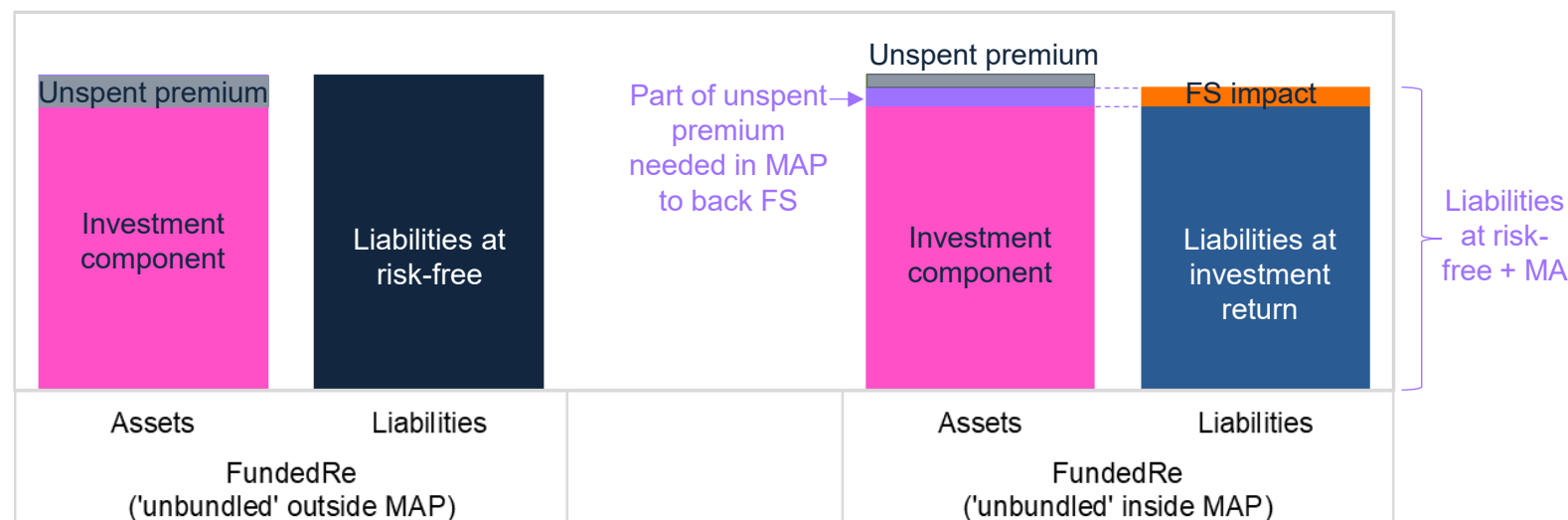
Valuing the components

- How would valuing the investment component differ from valuating private debt or other private assets?

Rating the investment component

- How would you develop a rating methodology for the investment component? Are there related methodologies that you could leverage?
- What should be taken into consideration, beyond the reinsurer's credit rating, collateral, and termination clauses?

Walkthrough of the unbundling approach for a FundedRe transaction (inside the MAP)



FundedRe (unbundled treatment):

The FundedRe asset is unbundled.

The investment component is discounted at asset spread so is closer to the FundedRe payment.

Liabilities here assumed to be outside of the MAP.

FundedRe (unbundled and held in the MAP):

The asset could then be moved into the MAP if required.

Under this approach, the liabilities are valued using the investment component spread, subject to the FS.

It would attract an FS and assets would need to be injected into the MAP to meet this FS.

Roundtable questions 3/3

Inclusion in the MA framework

- What are the major components of the MA framework that would need to be considered for the purposes of the unbundled asset?

Other considerations

- What early views do you have on how unbundling may impact your business?
- What other policy details would you need to help us understand what the impacts might be on volumes and pricing of BPA business?



Questionnaire

