

PRA RULEBOOK: FUNDED REINSURANCE INSTRUMENT [2026]

Powers exercised

- A. The Prudential Regulation Authority (“PRA”) makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
- (1) section 137G (The PRA’s general rules); and
 - (2) section 137T (General supplementary powers).
- B. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instruments) of the Act.

PRA Rulebook: Funded Reinsurance Instrument [2026]

- C. The PRA makes the rules in the following Annexes to this instrument.

Part	Annex Name
Glossary	A
Technical Provisions - Further Requirements	B
Fees	C

Commencement

- D. This instrument comes into force on [DATE].

Citation

- E. This instrument may be cited as the PRA Rulebook: Funded Reinsurance Instrument [2026].

By order of the Prudential Regulation Committee

[DATE]

Annex A

Amendments to the Glossary Part

In this Annex new text is underlined.

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funded reinsurance

means a reinsurance contract under which a firm transfers to a 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.

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insurance business transfer scheme

means a scheme to transfer the whole or part of the business of an insurance undertaking or member or former member of the Society which meets the conditions of Part VII FSMA or, where applicable, the Financial Services and Markets Act 2000 (Control of Transfers of Business Done at Lloyd's) Order 2001(SI 2001/3626).

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intra-group quota share funded reinsurance

means funded reinsurance 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 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 the 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. For the purposes of this test, the present value of the recoverables shall be calculated without reference to the requirements in Chapter 24A of the Technical Provisions – Further Requirements Part.

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Part VII reinsurance

means funded reinsurance entered into by a firm with a reinsurer relating to insurance and reinsurance obligations which the firm and that reinsurer are in agreement to transfer by way of an insurance business transfer scheme.

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Annex B

Amendments to the Technical Provisions-Further Requirements Part

In this Annex new text is underlined.

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RECOVERABLES FROM REINSURANCE CONTRACTS AND SPVS

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24A COUNTERPARTY DEFAULT ADJUSTMENT FOR FUNDED REINSURANCE

24A.1

The counterparty default adjustment for amounts recoverable from *funded reinsurance* must be equal to the fundamental spread for financial corporate bonds set out in the technical information published by the PRA in accordance with regulation 3(1) of the IRPR regulations.

24A.2

For the purposes of 24A.1, a *firm* must:

- (1) determine the appropriate *credit quality step* for the fundamental spread by:
 - (a) taking a *credit rating* of the *reinsurer's* financial strength and allocating that to a *credit quality step* as set out in the table in 1D.1 of the Solvency Capital Requirements – Standard Formula Part, or, where no *credit rating* of the *reinsurer's* financial strength exists, assigning a *credit quality step* 3 minus one *rating notch*;
 - (b) where the *funded reinsurance* is collateralised and the collateral meet the criteria set out in Chapter 3G8 of the Solvency Capital Requirement - Standard Formula Part, adjusting the *credit quality step* derived from (a) upward by one *rating notch* for each of the following conditions that is met:
 - (i) the required collateral under the *funded reinsurance* is at least 100% of the *funded reinsurance* premium with adjustments to the required level of collateral allowed only to reflect changes to market conditions or claims outstanding;
 - (ii) the expected cash-flows of the worst-case collateral portfolio replicate the expected cash-flows of the *funded reinsurance* in the same currency; and
 - (1) any mismatch between the expected cash-flows does not give rise to risks which are material; and
 - (2) all assets in the worst case collateral portfolio are within scope of the *firm's matching adjustment permission*;
 - (iii) the weighted average credit quality of the worst-case collateral portfolio is better than the measure of the *reinsurer's* financial strength used by the *firm* for the purposes of (a);
- (2) adjust the fundamental spread derived from the *credit quality step* determined under (1) to reflect differences in quality by *rating notch* by applying the requirements set out in rules 6.1 to 6.5(1) of the Matching Adjustment Part as if the *firm* had a *matching adjustment permission*;
- (3) determine the duration for the fundamental spread in accordance with the timing of the *reinsurance* recoverables cash-flows from the *funded reinsurance*.

24A.3

For the purposes of 24A.2(1)(b), the worst-case collateral portfolio comprises assets with the lowest credit quality and largest cash-flow mismatches permitted under the *funded reinsurance*.

24A.4

The use of *credit ratings* in the calculation of the counterparty default adjustment for *funded reinsurance* must be in line with the specifications set out in Solvency Capital Requirement – Standard Formula 1A to 1D.

24A.5

Rule 24A.1 does not apply to:

- (1) *funded reinsurance* where all the risks covered are transferred to the *reinsurer* on or before 30 September 2026;
- (2) *intra-group quota share funded reinsurance*; and
- (3) *Part VII reinsurance* until the earliest of:
 - (a) the date on which a court makes a final decision not to sanction the *insurance business transfer scheme* to which the *Part VII reinsurance* relates; or
 - (b) two years from the date on which the *Part VII reinsurance* obligations come into effect.

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Annex C

Amendments to the Fees Part

In this Annex deleted text is struck through.

1 APPLICATION AND DEFINITIONS

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1.2

In this Part, the following definitions shall apply:

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~~*insurance business transfer scheme*~~

~~means a scheme to transfer the whole or part of the business of an *insurance undertaking* or *member* or *former member* of the *Society* which meets the conditions of Part VII *FSMA* or, where applicable, the Financial Services and Markets Act 2000 (Control of Transfers of Business Done at Lloyd's) Order 2001(SI 2001/3626).~~

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