167 Fleet Street, London EC4A 2EA, UK
+44 (0)20 7822 8380
info@aima.org

acc.aima.org

31 July 2026
Insurance Policy Division, Prudential Policy Directorate
Prudential Regulation Authority
20 Moorgate, London EC2R 6DA
By email: CP8_26@bankofengland.co.uk

ACC comment letter on PRA consultation on Funded Reinsurance CP8/26

The Alternative Credit Council (ACC)[1], the private credit affiliate of The Alternative Investment Management Association Ltd (AIMA)[2] welcomes the opportunity to respond to Consultation Paper 8/26 (CP8/26), in which the Prudential Regulation Authority (PRA) proposes to recalibrate the counterparty default adjustment (CDA) applied to funded reinsurance under Solvency UK. The ACC represents alternative asset managers and private credit managers globally, a number of whom sponsor, capitalise, or provide credit support to reinsurance counterparties active in the UK bulk purchase annuity (BPA) market. This response is submitted on their behalf.

The ACC supports the PRA's objective of ensuring that funded reinsurance (FundedRe) is capitalised in a manner that reflects its underlying economic risk. However, the ACC does not support the specific calibration set out in CP8/26. The proposals as drafted would raise average capital held against funded reinsurance from approximately 2 to 4% of annuity liabilities today to approximately 10%. Of the approximately 10% total impact, the CDA itself accounts for approximately 7 percentage points on average, with the

[1] The Alternative Credit Council (ACC) is a global body that represents asset management firms in the private credit and direct lending space. It currently represents 250 members that manage over $2tn of private credit assets. The ACC is an affiliate of AIMA and is governed by its own board which ultimately reports to the AIMA Council. ACC members provide an important source of funding to the economy. They provide finance to mid-market corporates, SMEs, commercial and residential real estate developments, infrastructure as well the trade and receivables business. The ACC's core objectives are to provide guidance on policy and regulatory matters, support wider advocacy and educational efforts and generate industry research with the view to strengthening the sector's sustainability and wider economic and financial benefits. Alternative credit, private debt or direct lending funds have grown substantially in recent years and are becoming a key segment of the asset management industry. The ACC seeks to explain the value of private credit by highlighting the sector's wider economic and financial stability benefits.

[2] AIMA is the world's largest membership association for alternative investments managers. Its membership has more firms, managing more assets than any other industry body and, through our 10 offices located around the world, we serve over 2,000 members in 60 different countries. AIMA's mission, which includes that of its private credit affiliate, the Alternative Credit Council (ACC) is to ensure that our industry of hedge funds, private market funds and digital asset funds is always best positioned for success. Success in our industry is defined by its contribution to capital formation, economic growth, and positive outcomes for investors, while being able to operate efficiently within appropriate and proportionate regulatory frameworks. AIMA's many peer groups, events, educational sessions, and publications, available exclusively to members, enable firms to actively refine their business practices, policies, and processes to secure their place in that success.

balance arising from consequential effects on the Solvency Capital Requirement (SCR) and risk margin (CP8/26, paragraph 4.8). The credit quality mechanics that produce that CDA figure take no account of the capital a reinsurer is itself required to hold under its own solvency regime, allow no credit for diversification, and compound a rating cliff-edge with a punitive default for unrated counterparties. The practical effect is to entrench a small number of incumbent, highly rated reinsurers and to foreclose the market to new entrants, including those capitalised by well-resourced alternative asset managers, notwithstanding the PRA's own stated aim of preserving effective competition in the BPA market.

We have six specific concerns with CP8/26, which can be summarized as follows (see Appendix for more details for each):

1. CP8/26 proposes a balance-sheet treatment of FundedRe that moves the economic and valuation analysis closer to a creditor-exposure framework without achieving a risk-sensitive methodology. The proposed approach draws on secured credit concepts, including covered bond-style and collateralised lending features that the PRA itself acknowledges, but does not yet capture the benefits of either coherently. The PRA should improve risk sensitivity, either by recalibrating the base CDA methodology to reflect residual loss exposure after collateral, or by making the CQS uplift and notching framework materially more granular and data-driven to better correspond with actual levels of economic risk.
2. The PRA has not yet established the evidence base for moving from the enhanced supervisory expectations introduced in July 2024, through PS13/24 and SS5/24, to a bespoke capital treatment less than two years later. The PRA should set out the specific prudential problem CP8/26 is intended to address, and confirm whether continued FundedRe growth achieved through full compliance with those expectations would itself be regarded as acceptable.
3. The CDA gives no credit for capital the reinsurer itself is required to hold and makes no allowance for diversification, raising a concern about duplicative capital treatment. The PRA should explain how the proposed treatment avoids this duplication and remains consistent with the principle of Solvency II/UK equivalence.
4. The CDA notching table imposes a disproportionate, non-linear penalty across rating bands, and caps the recognition of strong collateral at the AAA-equivalent threshold while fully recognising the downside of weaker credit quality. The PRA should publish the loss data underlying the calibration and revise it so the capital charge scales proportionately with credit quality.
5. The default to CQS 3 less one notch for unrated counterparties applies regardless of the strength of any parent or guarantor backing, disadvantaging new entrants and risking further concentration among a small number of incumbent reinsurers. The PRA should introduce a look-through mechanism for legally enforceable

parental and guarantor support.

6. The proposal does not provide sufficient recognition to the home-jurisdiction prudential regime under which a reinsurance counterparty already holds capital, including in the United States and Bermuda, both recognised as equivalent under Solvency II, placing the UK out of step with other major jurisdictions. The PRA should assess the proposal's practical effects on equivalently supervised overseas reinsurance capacity against the principle of open, non-discriminatory reinsurance markets.

The ACC supports a more risk-sensitive capital framework for funded reinsurance, but we do not believe the proposed calibration is sufficiently data-driven or reflects the actual level of economic risk. Before finalising the rules under CP8/26, we respectfully ask the PRA to make the following changes:

- Set out clearly the specific prudential problem CP8/26 is intended to address, and confirm whether continued growth in FundedRe use, achieved through full compliance with the proposed capital treatment and SS5/24, would itself be regarded as an acceptable outcome.
- Improve the risk sensitivity of the CDA framework, either by adjusting the base methodology to reflect the residual loss exposure retained after collateral and other structural protections, or by making the credit quality step (CQS) uplift and notching framework materially more granular; in either case, the framework should be capable of recognising the risk mitigation approaches practiced across the market – many of which insurers are already required to implement and maintain under SS5/24. The calibration should reflect the residual risks retained by the cedant after those measures are taken into account. Where the reinsurer is itself subject to a prudential regime recognised as equivalent for Solvency II purposes and holds capital against the relevant risks, the PRA should also explain how the framework avoids unnecessary duplication in capital treatment. The PRA should also outline how the proposed frameworks reflects the diversification benefit consistent with the treatment afforded to direct investments.
- Publish the loss data underlying the proposed CDA notching table and revisit the calibration so that the capital charge scales proportionately with credit quality across the full ratings range, rather than concentrating the benefit of strong collateral at the AA threshold and above.
- Introduce a look-through mechanism for the CQS assigned to unrated reinsurance counterparties backed by rated, well-capitalised parents, guarantors, or holding companies, so that the default to CQS 3 less one notch applies only where no credible form of institutional backing exists, and so that the framework does not concentrate reliance on a narrow pool of highly rated incumbent counterparties.

- Assess the practical effects of the proposal on equivalently supervised overseas reinsurance capacity, including in the United States and Bermuda, against the objectives of relevant covered-agreement arrangements and the principle of open, non-discriminatory reinsurance markets, and recognise capital already held by reinsurers under home-jurisdiction prudential regimes recognised as equivalent for Solvency II purposes.
- Extend or phase the 30 September 2026 savings provision cut-off, given that firms have a narrow window between the close of this consultation and that date in which to complete transactions already in train.

We would be happy to elaborate further on any of the points raised in this letter or annex below. For further information, please contact me at jkrol@aima.org or Joe Engelhard, Head of Private Credit & Asset Management Policy, Americas, at jengelhard@aima.org.

Yours sincerely,

Jiří Król

Deputy CEO, Global Head of Government Affairs, AIMA

Global Head of the Alternative Credit Council

Annex – Detailed ACC comments on PRA consultation on Funded Reinsurance CP8/26

1. The CDA moves FundedRe closer to a creditor-exposure framework without achieving a risk-sensitive methodology

CP8/26 proposes a balance-sheet treatment of funded reinsurance under Solvency UK that moves the economic and valuation analysis closer to a creditor-exposure framework, without formally reclassifying FundedRe as a credit exposure. The CDA methodology draws on features most closely associated with credit-risk assessment frameworks, even though FundedRe continues to be treated and valued as reinsurance. The ACC does not object in principle to the PRA moving to a more risk-based treatment of FundedRe counterparty exposure. Our concern is that the methodology proposed to achieve this is not yet sufficiently data-driven and risk-sensitive across the range of FundedRe structures used in practice to capture the actual level of economic risk.

The proposed approach appears to draw on concepts more commonly associated with secured credit methodologies, including elements that resemble covered bond-style treatment and collateralised lending approaches; the PRA itself acknowledges parallels with covered bonds and collateralised loans, and notes that the proposed notching criteria align with the notching methodologies used for rating covered bonds and structured finance instruments (CP8/26, paragraphs 3.13 and 3.16). Both of those methodologies, properly applied, are risk-sensitive: they recognise the quality, structure, and legal enforceability of the collateral supporting the exposure, and calibrate the capital charge accordingly. CP8/26 does not yet capture the benefits of either approach in a sufficiently coherent way. The result is a methodology that imports the conservatism associated with treating the exposure as unsecured credit, without the offsetting recognition of collateral quality that a secured credit or covered bond framework would ordinarily provide.

The ACC's central ask is that the PRA improve the risk sensitivity of the framework before finalising the rules, by one of two routes. The PRA could adjust the base CDA methodology so that it reflects more directly the residual loss exposure retained by the cedant after collateral and other structural protections are taken into account, rather than starting from an unsecured credit default assumption and layering notching adjustments on top. Alternatively, if the PRA retains its proposed Financial Fundamental Spread-based starting point, it should make the CQS uplift and notching framework materially more granular, and capable of recognising a wider range of structural protections than the three criteria currently set out in paragraph 3.19 of CP8/26.

If the policy proceeds broadly as drafted, without either of these changes, the ACC's members are concerned that it would make well-structured FundedRe less viable, including in cases where firms use it prudently and within robust limits consistent with

SS5/24. That outcome would have adverse implications for capacity in the BPA market, for competition among reinsurance counterparties and the asset managers that support them, and ultimately for the range and pricing of retirement products available to UK annuity policyholders.

2. The PRA has not yet established the evidence base for moving from enhanced supervisory expectations to bespoke capital treatment

The PRA introduced significantly enhanced supervisory expectations for FundedRe in July 2024, through PS13/24 and SS5/24. The insurance industry undertook substantial work to comply with those expectations, covering governance, risk management, collateral arrangements, and recapture planning. The ACC's members do not regard the requirements introduced through PS13/24 and SS5/24 as light touch.

A move from those governance and supervisory expectations to a bespoke capital treatment should be explicitly evidence-based. Whatever view firms take on the desirability of the proposals themselves, there should be a shared understanding of the specific prudential problem CP8/26 is designed to address, and why an onerous capital treatment is now required less than two years after the introduction of the previous set of enhanced expectations. That shared understanding has not yet been established, and the ACC asks the PRA to set it out clearly before finalising the rules.

It should also be clear what the policy is intended to achieve. CP8/26 currently links the proposed capital treatment to a number of related but analytically distinct concerns, including the volume of FundedRe transacted, the quality of collateral supporting those transactions, firms' risk management of FundedRe exposures, competitiveness in the BPA market, the availability of productive investment, and the potential for further growth in FundedRe use. These concerns should be separated. In particular, the PRA should state whether continued growth in aggregate FundedRe use, in a scenario where firms fully comply with the proposed capital treatment and with SS5/24, would be regarded as an acceptable outcome. If growth achieved on that compliant basis would remain a supervisory concern, this would indicate that the underlying problem is not the valuation treatment addressed by CP8/26, and the PRA should articulate what the remaining problem would be.

The ACC strongly supports the Government's objective of increasing investment in UK productive assets. It does not accept, without further evidence, the assumption that reducing FundedRe use would in itself support that objective. The ACC understands that a significant constraint on insurers' investment in UK productive assets remains the limited supply of assets that meet insurers' requirements on credit quality, duration, cash-flow predictability, scale, diversification, Matching Adjustment eligibility, and risk-adjusted return, rather than the extent of FundedRe use. The ACC also notes that FundedRe collateral pools themselves can include, and in practice do include, assets that support UK economic activity.

3. The methodology used to calculate the capital increase does not reflect capital the reinsurer itself holds or any diversification benefit

CP8/26 states that the current capital held for the average funded reinsurance transaction is around 2 to 4% of underlying annuity liabilities, compared with 11 to 15% for economically similar direct investments, and that the proposals would bring the total valuation and capital impact, comprising the CDA, the SCR and the risk margin, to around 10% on average (CP8/26, paragraphs 3.5 and 4.11). Of that total, the CDA itself accounts for around 7 percentage points on average (CP8/26, paragraph 4.8). The ACC's concern is not just with the size of this increase but also with the method used to calculate the CDA component specifically. A single average figure conceals two specific and correctable flaws in the underlying calculation: the CDA gives no credit for capital the reinsurer itself is required to hold, and it makes no allowance for diversification. Both are addressed in turn below.

- A single average figure of this kind also obscures considerable dispersion in the underlying risk. The PRA's own worked examples show that actual capital impacts range from 3% to 13% depending on counterparty rating and collateral quality (CP8/26, paragraph 4.8), across a market the PRA projects will grow from approximately £40 billion to £110 billion in funded reinsurance exposures over the next decade (CP8/26, paragraph 4.3). A framework calibrated to a single average, rather than to the two specific flaws identified below, risks misallocating capital across that range.
- The CDA is derived without any allowance for the capital the reinsurer itself is required to hold against the same risk under its own solvency regime, including reinsurers domiciled in jurisdictions, such as Bermuda, that the UK has formally recognised as equivalent under Solvency II. Treating the cedant's exposure as though the reinsurer holds no capital at all, while simultaneously relying on that same equivalence finding to permit the transaction, is not a coherent position. The CDA should be recalibrated to give explicit credit for regulatory capital held by the reinsurer in an equivalent jurisdiction.
- The proposal also omits any diversification benefit, notwithstanding that the PRA elsewhere recognises diversification as a legitimate feature of insurers' own capital models and acknowledges that actual outcomes will depend on it (CP8/26, paragraph 4.13). A framework that borrows the fundamental spread methodology

used for direct corporate bond holdings, but declines to borrow the diversification treatment that ordinarily accompanies it, has adopted the part of the analogy that increases capital and discarded the part that would moderate it.

This raises a specific concern about potential duplication in capital treatment. Where the reinsurer is subject to a robust prudential regime and is already required to hold capital against the asset-related risk retained on its own balance sheet, requiring the cedant to hold capital against the same underlying assets risks double-counting the same risk across the transaction. The ACC asks the PRA to explain what prudential relevance, if any, it assigns to the reinsurer's supervision and capitalisation jurisdictions, such as Bermuda, that have been recognised as equivalent by HM Treasury for Solvency II purposes - when calibrating the cedant's residual counterparty exposure. The PRA should also explain how the proposed CDA methodology avoids the potential duplication of capital held against relevant risks, and how it ensures the Solvency UK regime to remains consistent with the principle of Solvency II/UK equivalence that underpins robust cross-border risk-transfer.

4. The CDA notching table imposes a disproportionate, non-linear penalty that discourages the collateral discipline the PRA says it wants to reward

The PRA's own worked examples illustrate the problem. A reinsurer rated AA, with collateral strong enough to qualify for all three available notches and be treated as AAA, sees the CDA reduce the value of the reinsurance asset by approximately 3%, up from approximately 0.5% under current approaches. A reinsurer rated BBB, with weak collateral and no notching, sees a reduction of approximately 13%, up from approximately 2% today (CP8/26, paragraph 4.8). The ACC opposes both results, for related but distinct reasons.

- The penalty is not proportionate to the incremental risk. A move from AAA-equivalent to BBB more than quadruples the capital charge, a slope that bears no evident relationship to the actual difference in expected default and recovery experience between those rating bands. The PRA has not published the loss data underlying this calibration, and the ACC asks that it do so before the CDA table is finalised.
- The notching mechanism rewards collateral quality only up to the point where a counterparty is treated as AAA, after which further improvement in collateral produces no further capital benefit. The PRA has effectively capped the incentive to build stronger collateral arrangements at the AA rating threshold. This blunts, rather than sharpens, the risk sensitivity the PRA states is the purpose of the reform, and it does so precisely for the counterparties, often newer entrants seeking to compete against established reinsurers on the strength of collateral quality rather than legacy rating, that the PRA's secondary competition objective is meant to protect.

- The BBB outcome is calibrated on the assumption of weak collateral and no notching. In practice, many BBB-rated or unrated counterparties backed by alternative asset managers offer collateral arrangements that would satisfy some or all of the three notching criteria in paragraph 3.19 of CP8/26. The 13% figure therefore overstates the likely capital impact on exactly the counterparties whose access to the market the PRA should be most concerned to preserve, and understates the extent to which collateral quality, rather than a counterparty's public rating alone, drives the risk actually retained by the cedant.

The ACC frames this pattern as asymmetric recognition of relevant risk mitigants: the framework recognises the downside of weaker credit quality in full, but caps the recognition of the risk-reducing effect of strong collateral once a counterparty is treated as AAA-equivalent. A risk-sensitive framework should recognise structural protections symmetrically across the full range of credit quality and collateral strength, not only up to a fixed threshold.

5. The default to CQS 3 less one notch penalises new entrants regardless of the strength of their backing, and does so without any look-through mechanism

Where no IFS rating issued by an External Credit Assessment Institution (ECAI) exists for a reinsurance counterparty, CP8/26 proposes that firms default to credit quality step 3 less one notch, equivalent to a BBB- rating (CP8/26, paragraph 3.14 and footnote 14). This default applies irrespective of the financial strength of any parent, guarantor, or holding company standing behind the reinsurer, and irrespective of whether that backer is itself rated investment grade or better.

- New reinsurance entrants capitalised by alternative asset managers frequently rely on holding company guarantees, cut-through arrangements, or parental capital support in place of, or pending, an ECAI-issued IFS rating. CP8/26 makes no provision for any of these forms of credit support to be reflected in the CQS assigned to the counterparty. A newly formed reinsurer backed by a well-rated, well-capitalised asset manager is treated identically to an unrated reinsurer with no institutional backing at all.
- We believe this part of the proposal creates a significant barrier to new entry, and it operates in direct tension with the PRA's own view that the reforms will support, rather than undermine, effective competition in the BPA market (CP8/26, paragraph 5.5). A reform that rewards incumbency by construction cannot simultaneously claim to be competitively neutral.
- The ACC asks the PRA to introduce a look-through mechanism permitting firms to reflect the credit strength of a parent guarantee, cut-through arrangement, or holding

company support in the CQS assigned to an unrated counterparty, subject to appropriate legal enforceability and segregation safeguards. Absent this change, the practical effect of CP8/26 will be to concentrate the funded reinsurance market further in the hands of a small number of long-established, highly rated reinsurers, the opposite of the outcome the PRA states it intends.

The ACC also notes that a framework which encourages reliance on a narrow pool of highly rated incumbent counterparties sits uneasily with diversification of reinsurance counterparty risk being one of the principal benefits of FundedRe, both for individual insurers and across the market as a whole. A look-through mechanism of the kind described above would help preserve that diversification benefit, rather than concentrate it away.

6. ***The proposal is out of alignment with other major jurisdictions and sits in tension with the UK's international commitments***

The CDA methodology gives no recognition to the home-jurisdiction prudential regime under which a reinsurance counterparty already holds capital, including in the United States and in Bermuda, both of which the UK recognizes as equivalent under Solvency II. Funded reinsurance is a principal channel through which UK cedants access deep, global pools of capital, and a calibration that disregards equivalent supervision places the UK out of step with those jurisdictions.

This raises market-access concerns. Although CP8/26 applies formally to UK cedants, its practical effect would fall on qualifying overseas reinsurers by making their capacity materially more expensive to use, notwithstanding the strong home-jurisdiction supervision to which they are subject. We encourage the PRA to assess the proposal's practical effects against the objectives of the relevant covered-agreement arrangements and the broader principle of open, non-discriminatory reinsurance markets. A framework that effectively penalizes the use of equivalently supervised overseas capacity risks inviting reciprocal barriers in other jurisdictions, to the detriment of UK-headquartered firms with international operations, while delivering limited additional prudential benefit. This would also be difficult to reconcile with the PRA's secondary objective to facilitate the growth and international competitiveness of the UK economy.