SLAUGHTER AND MAY/

JANUARY 2026

# INSURANCE OUTLOOK 2026

## QUICK LINKS



## MARKET THEMES AND TRENDS

Amidst a year of fluctuating momentum in M&A generally, 2025 saw a substantial uptick in deal values in the insurance space in the UK, driven by a number of transactions exceeding £1bn. The most notable of the deals announced in 2025 were Brookfield's acquisition of Just Group and Apollo-backed Athora's proposed acquisition of Pension Insurance Corporation Group (PIC). There were also highly competitive processes in the European market, such as Cinven's sale of its interest in German insurance consolidator Viridium, which drew substantial interest from a range of bidders. There continues to be robust market activity, with a number of competitive auction processes ongoing in early 2026.

A lot of insurance M&A activity is currently being driven by private capital. These deals give private capital groups access to large pools of assets held by insurers, and therefore an opportunity to grow their private markets business and their fee income. Insurance companies can gain access to private market investment experience, including asset origination capability, and potentially higher returns which they might find more difficult to develop organically. On the buy-side, throughout the year, a combination of improved visibility on economic policy, rising public markets and ample dry powder created a favourable platform for funds to invest – particularly in the UK and Europe.

As well as M&A, we have seen a rise in strategic partnerships between insurers and private capital groups, such as the deal entered into between Blackstone and Legal & General last July under which Legal & General will invest up to 10% of anticipated annuities new business flows with Blackstone and the partnership announced by AIG and CVC in January this year. We expect 2026 to see a continuation of the convergence between life insurance and private capital, both in terms of M&A and other link ups.

We also expect to see continued activity as corporates in insurance and ancillary sectors divest businesses as part of a wider strategic transformation. We anticipate corporate separation and carve out activity to drive both corporate-to-corporate dealmaking and sponsor-backed activity.

In our Insurance Outlook 2025 we commented on the anticipated strength of the pension derisking market in the UK in 2025. Buy-in transaction levels have remained high at around £40 billion in value and are predicted to meet or exceed that level in 2026. Major transactions in 2025 included Legal & General's £4.6 billion buy-in with Ford Pension Schemes, which was the largest pension risk transfer transaction announced in the UK and Legal & General's second-largest buy-in by premium size of all time.

Market developments in 2026 will also continue to be affected more generally by the global political and economic environment. The Bank of England Financial Policy Committee noted in October 2025 that risks associated with geopolitical tensions, global fragmentation of trade and financial markets, and pressures on sovereign debt markets remained elevated and that a crystallisation of such global risks could have a material impact on the UK as an open economy and global financial centre.

## FCA INSURANCE SECTOR PRIORITIES

The FCA's ongoing work on firms' implementation of the Consumer Duty and related workstreams remains a high priority for the regulator in 2026. This encompasses ongoing work such as the FCA's pure protection market study and its work on insurance premium finance, both of which are expected to report in early 2026, as well as various workstreams looking at claims handling by insurers and other issues arising in the home and travel insurance markets.

The FCA is also looking at how the burden on firms imposed by the Consumer Duty could be alleviated where appropriate, focussing on the impact of the Duty on firms operating in the commercial market and on the operation of distribution chains.

Another key area of activity for the FCA this year will be the implementation of a number of inter-related changes to rules on the sale of investment products (including insurance based investment products) . The new regulated activity of "targeted support" will come into effect in April and new disclosure rules for the sale of "consumer composite investments" (replacing the old EU requirements) will also be finalised that month, although subject to a transitional period.

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## FCA REVIEW OF THE CONSUMER DUTY

The FCA has an ongoing programme, following the introduction of the Consumer Duty in 2023, to streamline and simplify its rules where possible, in particular relying on the Duty instead of more detailed prescriptive requirements. It also made a specific commitment to the Chancellor in September 2025 to address concerns about the application of the Consumer Duty to wholesale firms. Areas of recent, ongoing and planned activity include:

- a recent policy statement on simplifying the insurance rules (PS25/21) – in particular, this clarifies the definition of commercial insurance customers for the purposes of various conduct of business requirements and extends the scope of the exemption for bespoke insurance contracts
- a recent consultation on targeted clarification of Handbook materials to address outdated rules and guidance – CP25/37, published on 9 December 2025
- a recent statement on firms working together to manufacture products and services, published on 8 December 2025 – this aims to clarify the PRA's expectations where firms are working together in a distribution chain to manufacture a product or service
- a future consultation on changes to the rules and guidance relating to distribution chains, planned for Q2 2026 (and referred to in the statement on firms working together)
- a future consultation on disapplying the Duty in respect of business with non-UK customers, planned for mid-2026.

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## WHICH? SUPER-COMPLAINT RESPONSE

We discussed Which?'s super-complaint to the FCA in our November 2025 Insurance Update. The FCA published its response to the super-complaint on 18 December 2025 (the **"Response"**). The FCA's general position is that it has not (contrary to Which?'s assertion) failed in its statutory consumer protection objective to secure an appropriate degree of protection for consumers in home and travel insurance markets. It does, however, commit to expanding the work it already had planned to improve standards in the market in a number of areas, as detailed in the Response.

The FCA outlines in the Response the past and ongoing actions it has taken as part of its usual supervisory processes to ensure compliance by firms with its rules, the majority of which are not routinely a matter of public record. The FCA also rejected Which?'s conclusion that the legal analysis of a sample of policy documents presented in the super-complaint evidence unfair application of contract terms or breach of firms' regulatory obligations.

In response to the Which? recommendation of a joint review by the FCA and Government of consumer protection frameworks, the FCA comments that its view, shared by Government, is that "*the current legislative framework and available rules are sufficient to protect consumers and allow us to take appropriate action*".

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## TARGETED SUPPORT

### Overview

On 11 December 2025 the Government published its consultation response and the FCA published its policy statement in response to their July 2025 consultations on the introduction of a new regulated activity of providing "targeted support". The new regime is due to take effect from early April 2026.

The introduction of targeted support is a central outcome of the Government and FCA's advice/guidance boundary review. It recognises that the majority of consumers do not take regulated financial advice about making investments and seeks to provide an alternative way of supporting customers' decision-making. The FCA also intends to consult in early 2026 on simplifying and consolidating its existing investment advice rules and guidance.

An additional aim of the new regime, as stated in the Government's Financial Services Growth and Competitiveness Strategy, is to "*Address risk aversion to retail investment, to the benefit of our citizens, markets and wider economy*".

Targeted support involves the delivery of ready-made suggestions to clients in situations involving a shared financial support need or objective, by reference to the client's alignment with a pre-defined consumer segment. The service should not involve the provision of individualised advice.

Key aspects of the new targeted support regime, which we discuss in more detail in our Overview of Targeted Support, are:

- providing targeted support will be a new regulated activity under the FSMA regime and will not constitute "advising on investments"
- appointed representatives will not (for the time being at least) be able to provided targeted support services
- firms will need to define "consumer segments" at an appropriate level of detail so that they allow targeted support to be provided in a suitable manner but do not stray into individualised advice
- subject to certain conditions, firms can recommend an annuity as, or as part of, a ready-made suggestion under targeted support
- a ready-made suggestion must not include a recommendation to consolidate any of the pension arrangements that a client holds (which the FCA considers requires more individualised advice)

The FCA has also published two joint statements accompanying its policy statement - a joint statement with the Financial Ombudsman Service clarifying how the FCA and the FOS will work together in the event of future complaints relating to targeted support and a joint statement with the Information Commissioner's Office on how firms can communicate with consumers in the context of existing direct marketing rules.

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## THE NEW RETAIL DISCLOSURE REGIME

The plan to replace the disclosure requirements under the onshored EU Packaged Retail and Insurance-based Investment Products (PRIIPs) Regulation and the Undertakings for Collective Investment in Transferable Securities (UCITS) Directive with a new UK retail disclosure framework was first announced by Government in December 2022. Following consultation, the final rules in respect of the disclosure regime for "consumer composite investments"[1] (**"CCIs"**) were published by the FCA on 8 December 2025.

The aim of the new regime is to simplify disclosure requirements where investment products are sold to retail customers, and to allow firms more flexibility in how they design relevant product information documents.

The key requirements under the new regime will be set out in new provisions of the FCA's Product Disclosure sourcebook (DISC). The core obligations in DISC are that:

- a manufacturer must prepare a product summary and provide it to the distributor(s), along with underlying core information disclosures, in good time before the CCI is made available for distribution to retail investors; and
- a firm must not distribute a CCI to a retail investor without providing a product summary.

The product summary must set out appropriate information about the essential characteristics of the investment, including core information disclosures (as detailed in DISC) in respect of general product information, risk and return information, costs and charges information and performance information.

Production of the product summary is the responsibility of the manufacturer. Distributors may, however, highlight key information to the customer before providing them with a product.

To give firms sufficient time to prepare, the full regime and rules will not come into force until 8 June 2027. If they wish firms can, however, move from their current disclosure document to the new product summary when the legislation introducing the consumer composite investment regime commences on 6 April 2026. This is in response to the dissatisfaction of market participants with, in particular, the current PRIIPs regime.

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[1] For the purposes of the retail disclosure regime, a "consumer composite investment" is any investment or contract of insurance where the value or amount payable to the investor is subject to fluctuations because of exposure to reference values or to the performance of one or more assets which are not directly purchased by the investor. There are a number of exclusions from the definition including, for example, certain categories of debt securities and pension schemes.

## PRA INSURANCE SECTOR PRIORITIES

The PRA has set out its insurance supervision priorities for 2026 in its recent Dear CEO letter.

Having completed the review of Solvency II and the transposition of the amended regime into its Rulebook as of the beginning of last year, only minor tweaking of its core insurance rules are expected from the PRA in 2026. It has, for example, recently consulted on minor amendments and clarifications to its reporting and disclosure requirements.

The PRA will continue to monitor the ongoing high levels of pension derisking activity in the sector, where it remains concerned that competitive pressures may create incentives for firms to weaken pricing discipline or their risk management standards. It is also considering possible alternative forms of capital which might be appropriate for the life market. We discuss both of these aspects in more detail below.

On the non-life side, the PRA will launch its Dynamic General Insurance Stress Test in May, and other areas of focus include an ongoing monitoring of assumptions being made in firms' internal models about future underwriting performance.

The PRA is also committed to working on rules for the Government's proposed new captive insurance regime and consultations from both the PRA and FCA are expected to be published in summer 2026.

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## THE BPA MARKET

As noted in the PRA's Dear CEO Letter on Insurance Supervision priorities for 2026, the scale of the bulk purchase annuity market in the UK continues to be an area of concern. In 2026, the PRA plans to revisit how firms have responded to the July 2025 Dear CEO letter on the use of solvency-triggered termination rights in these transactions. It is also considering new policy proposals for the regulation of funded reinsurance, which might include explicit regulatory restrictions on the amount and structure of FundedRe or measures to address any potential underestimation of risk. The PRA has previously indicated this could include an unbundling of capital charges for different elements of the transaction. Following roundtables in 2025, the expectation in the market is that any change introduced by the PRA is unlikely to have retrospective effect, though the manner in which any restrictions would apply remains uncertain. The PRA expects to provide a further update on its plans in the second quarter of 2026.

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## ALTERNATIVE LIFE CAPITAL

On 14 November 2025 the PRA published a discussion paper to gather feedback on facilitating life insurers' access to alternative forms of capital not stemming from direct issuances of equity or debt. The PRA's plan to publish a discussion paper had been announced in a September speech by Vicky White which focussed on the use of funded reinsurance in the bulk purchase annuity market. The consultation period is open until 6 February 2026. A feedback statement and possible policy proposals can be expected in H1 2026.

The PRA does not make specific policy proposals in the discussion paper but outlines the potential need for alternative sources of capital, examples of risk transformation used in other sectors and jurisdictions, and potential risks and prudential concerns. It is inviting views on possible structures which might be used. Examples discussed are: ISPVs/Insurance Linked Securities; Synthetic Risk Transfers (currently used in the banking sector); and life insurance sidecars.

The PRA remains concerned that the long-term nature of life insurance liabilities is unsuited to the use of UK ISPVs as risk transfer vehicles, but invites views on whether the regime could be suitably adapted. In the current version of SS2/25 (Prudential considerations for insurance and reinsurance undertakings when transferring risk to Special Purpose Vehicles), the PRA comments that due to the long-term nature of the liabilities, to offer an acceptable or competitive price for the risk transfer of a book of annuities an SPV would likely need to invest in assets with significant credit and market risk. As a result of this and the general lack of diversification of risk in an SPV, the PRA does not expect the use of an SPV to result in a reduction in the overall level of capital a cedant holds for these risks and therefore does not expect firms to use SPVs to transform the risks associated with annuities or similar insurance business.

In the November discussion paper, the PRA notes that, in contrast to the current requirement for an ISPV to hold assets to cover the maximum exposure of the underlying insurance contract, for the ISPV regime to work for life insurance the quantum of assets an SPV is required to hold would likely need to be capped by the contractual agreement between the insurer and the SPV. This is because it is often impossible to determine a maximum exposure for these type of contracts. This would, of course, have implications for the level of the risk transfer from the perspective of the insurer.

The PRA concludes the discussion paper by setting out six principles which it considers should apply to alternative life capital structures:

1. The quality and quantity of capital to support insurance risks should not be lowered
2. The risk transferred should be contractually-bounded and time limited
3. Cedants will need to manage tail and residual risks (given principle 2)
4. Structures should predominantly result in capital relief, not balance sheet financing
5. Structures should not be developed to allow firms to originate and then distribute all risks they underwrite
6. Structures should not alter the control the cedant has over the management of its business

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## KEY DATES

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| Early 2026 | Interim report expected on the FCA's pure protection market study |
| Early 2026 | Final report expected on the FCA's premium finance market study |
| Early 2026 | Planned FCA consultation on simplifying and consolidating its existing investment advice rules and guidance |
| 6 February 2026 | Deadline for responses to PRA's discussion paper on alternative life capital |
| 6 April 2026 | Commencement of new targeted support regime |
| 6 April 2026 | Start of transitional period for the new retail disclosure regime - firms can opt to use the new product summaries from this date |
| May 2026 | Dynamic General Insurance Stress Test |
| Q2 2026 | Planned FCA consultation on changes to the Consumer Duty rules and guidance relating to distribution chains |
| 30 June 2026 | Deadline for preparation by firms of their Solvency Exit Analysis |
| Mid-2026 | Policy statements expected from the PRA and FCA on the review of the SM&CR |
| Mid 2026 | Planned FCA consultation on disapplying the Consumer Duty in respect of business with non-UK customers |
| Summer 2026 | Consultations expected from the PRA and FCA on the new captive insurance regime |
| 30 September 2026 | Implementation date for new liquidity reporting requirements for large insurers |

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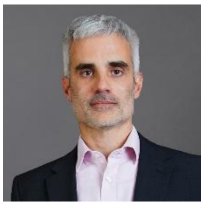
## CONTACTS



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