SLAUGHTER AND MAY/

3 FEBRUARY 2026

PRIVATE CREDIT'S NEXT CHAPTER

NAVIGATING GROWTH AND REGULATORY CHANGE

Policymakers are encouraging greater investment in private credit (PC) to support economic growth. The expansion of PC has in many ways been facilitated directly or indirectly by the regulatory environment. Post-2008 regulatory reforms affecting banks, particularly those that increased the cost and complexity of lending, have created opportunities for PC lenders, while the regulation of insurers and other asset owners has helped to create demand for PC assets. Most recently the PC market has become increasingly important for institutional investors, including insurers and pension funds, and is gradually opening to retail investors. At the same time, regulators are paying closer attention to emerging risks and systemic interconnectedness with the wider financial system. While bank-type regulation seems unlikely, there are some early moves towards more hands-on supervision.

Drivers of growth

The regulatory environment has played a central role in enabling the expansion of the PC market. A recently published House of Lords Financial Services Regulation Committee report on private markets found that post-financial crisis capital and liquidity reforms constrained banks' capacity to provide direct lending to UK corporates, creating space for the growth of PC. PC has stepped into that space and delivered tailored, flexible alternative financing solutions with speed and expertise across the capital structure to borrowers that may otherwise have struggled to source funding. Moreover, PC has proven to be more than a temporary fix, demonstrating its resilience by withstanding recent periods of market stress and instability.

More recently, reforms to Solvency II and the matching adjustment framework have opened opportunities for insurers to gain relatively favourable prudential treatment for a broader range of income-producing PC assets, including those backing pensions annuities. Retail access to PC is also widening, either through stewards of consumer savings such as pension funds or consumers directly (via structures such as the UK Long-Term Asset Fund), signalling a willingness to challenge perceptions of risk for (controlled) access for retail investors to PC related investments.

Regulatory scrutiny of systemic touchpoints

As the PC market expands, regulators continue to flag potential systemic risk concerns, particularly around the growing interconnectedness between PC funds, banks and other parts of the financial system. These concerns sit uneasily with the broader deregulatory trajectory currently shaping the financial services landscape. Arguments on both sides of this policy debate have been well documented. With policymakers emphasising competitiveness and growth, it remains unclear how far, and in what direction, supervisory intervention on PC will ultimately move. To date, most supervisory concern has centred not on PC itself, but on its points of connection with the traditional financial system.

Reviews by UK and EU prudential authorities[1] have highlighted challenges in measuring banks' aggregate exposures to the PC sector and managing risks associated with their provision of 'non-traditional' forms of financing facilities, such as NAV facilities or other asset-based facilities. Bank boards have needed to become more involved in overseeing firm-wide strategy and combined business initiatives, including taking measures that enable them to take a consolidated view of their exposures. As prudential authorities tighten their expectations around the measurement and management of banks' exposures to PC, this could, paradoxically, amplify the shift of activity from banks to PC providers or prompt further structural innovation as managers seek financing routes that sit outside traditional bank intermediation.

A more significant development for PC may ultimately arise from evolving supervision of insurers' involvement in the asset class. Policymakers in the UK and internationally are scrutinising insurers' growing allocations to PC. The International Association of Insurance Supervisors (IAIS) paper on structural changes in the life sector examined the increasing allocation

[1] See PRA 2024 thematic review and accompanying CRO letter (and Slaughter and May briefing). The ECB found risk-management deficiencies akin to the PRA's findings when it conducted an exploratory review of banks' private equity and PC fund exposures in 2024.

to “alternative assets” (which, under its proposed definition, would include credit related and structured securities) within life insurers’ portfolios and the growing adoption of cross-border asset-intensive reinsurance. The Deputy Governor of the Bank of England for Financial Stability, Sarah Breeden, recently indicated an intention to “double-click” on insurers’ links with private equity and PC, referring to “supervisory expectations seeking to limit the links between funded reinsurers—the reinsurers who are invested in PC - and the UK insurers who are ceding their business to them.” Enhanced insurance sector oversight has the potential to constrain opportunities on the asset side more meaningfully than bank focused interventions, with broader implications for the growth trajectory of PC.

The risk of inflated assessments of creditworthiness in private ratings (typically used for bespoke or structured products and issued by smaller rating agencies) is also gaining scrutiny, having already drawn attention from several policymakers and in evidence given by witnesses before the House of Lords inquiry referred to above.

From light touch to more robust direct measures

Regulatory attention is also beginning to extend more directly into the PC sector. The forthcoming EU AIFMD II reforms will introduce a distinct “loan originating AIF” category for the first time, bringing with it risk retention requirements and restrictions on the use of leverage. In the UK, the findings from FCA’s 2025 assessment of valuation practices in private markets (which covered UK authorised firms managing funds or providing portfolio management and/or advisory services in the UK for private equity, venture capital, PC and infrastructure assets) spurred some managers to adopt more prescriptive valuation policies and change fee structures to mitigate potential conflicts of interest. The Bank of England’s decision to include PC funds in its 2026 system wide stress testing exercise (SWES) (despite not having direct supervisory authority over the sector) signals an appetite for deeper examination. A SWES does not typically trigger immediate regulatory change or firm-specific corrective action but is likely to guide supervisory focus and future policy work.

Concluding thoughts for funds - preparation and engagement

The growth of PC comes at a time when the regulatory cycle is arguably at its most permissive in many years, with policymakers giving ever greater emphasis to competitiveness and economic growth. This creates a favourable environment for the sector to engage with regulators. Active participation in policy consultations and industry forums is a way for the PC market to shape their own regulatory landscape. The participation of a number of PC funds at the House of Lords Financial Select Committee inquiry, as well as the intended engagement of funds with the upcoming SWES, already indicates that PC is keen to engage with policymakers with a view to striking the right balance between encouraging innovation and access to alternative sources of capital, while ensuring that the risks associated with less regulated lending do not compromise financial stability. How financial stability concerns are ultimately reconciled with the broader deregulatory agenda will shape the trajectory of PC oversight.

We will continue to engage with these developments. If you want to know more about them or to discuss their implications for your business, please contact either your relationship partner or one of the other contacts listed below.

CONTACTS

Edward Fife
PARTNER

Richard Jones
PARTNER

Charlie McGarel-Groves
PARTNER

David Shone
PARTNER

David Hay
PARTNER

Kathrine Meloni
SPECIALIST ADVISOR &
HEAD OF TREASURY INSIGHT

Selmin Hakki
KNOWLEDGE COUNSEL

Natalie Butchart
KNOWLEDGE COUNSEL