Bank of England PRA

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Gareth Truran
Executive Director, Insurance Supervision

Shoib Khan
Director, Insurance Supervision

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Dear [Chief Executive Officer]

Insurance Supervision: 2026 priorities

We are writing to outline the Prudential Regulation Authority's (PRA) 2026 priorities for our supervision of the UK insurance sector ('firms'). We supervise a large and diverse population of insurance firms, and the priorities set out in this letter are not exhaustive. These thematic priorities complement the firm-specific feedback that you will have received following your most recent Periodic Summary Meeting (PSM).

Our priorities are set to help us meet our enduring supervisory aim for the insurance sector to provide financial protection and security to policyholders in good times and bad, in line with our primary objectives. Several of the priorities in this letter are consistent with those highlighted last year, reflecting a continuation of many of the trends in the market. These trends include continued pressures in the bulk purchase annuity (BPA) market, a softening underwriting cycle in the general insurance market, and a need for firms to continue to invest in their operational resilience. Firms are facing an uncertain environment, in which geopolitical tensions and pressures on sovereign debt markets remain elevated.[1] We expect firms to continue to consider how these risks might affect their business models and strategies, and ensure appropriate risk management, governance and controls are in place to manage these risks including in downside scenarios.

Firms' resilience is also important to support sustainable economic growth. This letter also sets out the work we are doing to advance our secondary objectives, by

[1] Financial Policy Committee Record – October 2025.

supporting innovation and adapting our supervisory approach, including through changes to PSM cycles.

Life insurance priorities

Across the economy, there continues to be significant demand for pension saving, de-risking and long-term investment. The life insurance sector is well-placed to play its part in meeting these demands alongside other parts of the financial services sector. The PRA's aim is that the sector can do so in a sustainable way, by ensuring appropriate protection for policyholders and safety and soundness of firms and helping to maintain financial stability. Having implemented significant reforms to Solvency UK in 2024, the PRA built on these reforms last year through the launch of the new **Matching Adjustment Investment Accelerator**. These reforms should support delivery of the UK insurance industry's commitment to invest in UK productive assets.

While all parts of the life sector have a role to play in the provision of long-term savings and investment, we continue to pay particular attention to the BPA market given the long-term nature of the risks underwritten by firms, their changing investment strategies and other competitive pressures in this market.

Competitive pressures

The BPA market continues to be very competitive, with existing firms and new entrants continuing to respond to increased demand from corporate sponsors for pension buy-out solutions. We remain concerned that competitive pressures create incentives for firms to weaken pricing discipline or their risk management standards. We continue to engage actively with the sector on these market-wide trends, to understand firms' perspectives on these issues. Firms should ensure their internal risk management frameworks and controls are sufficiently robust to assess and manage risks that they take on, including as pressures increase on pricing and as more complex transaction features are considered. In 2026 we will revisit how firms have responded to our **Dear CRO** letter on solvency-triggered termination rights, to ensure the potential risks of those contract features are recognised and managed appropriately.

We continue to see growing use of funded reinsurance (FundedRe). While FundedRe can provide access to additional capital and asset classes, it also introduces material risks that must be carefully managed. In our **Dear CEO** letter accompanying supervisory statement (SS) 5/24 – **Funded reinsurance**, we made clear that we would keep under review the case for further action including consideration of explicit regulatory restrictions on the amount and structure of FundedRe, or measures to address any underestimation of risk, or regulatory arbitrage, inherent in these transactions. Since September 2025 we have engaged with firms in a series of roundtables to develop a common understanding of these issues and to allow us to consider whether further policy action is needed. This engagement has proved helpful to confirm the need for policy action in this area and to discuss a range of approaches to achieve this. We are actively reflecting on the views provided by firms during the roundtables and will use this input to help formulate our policy proposals. We expect to provide a further update in the second quarter.

Investment strategies

Firms' investment strategies continue to evolve in the light of changing market conditions, and insurers' risk management practices must adapt accordingly to reflect the associated risks. For example, as corporate bond spreads have remained narrow, some firms have made more use of strategic structured and synthetic investments which can introduce potential liquidity risk. We expect firms to consider the cumulative impact and potential leverage of any such strategies, and ensure appropriate risk appetite and limit frameworks are in place to manage potential aggregate cashflow risks including in stressed conditions. We will also look to gain further insights over time on the evolution of major UK insurers' liquidity exposures following the implementation in September 2026 of the PRA's new **liquidity reporting requirements**. Affected firms should continue to engage with the PRA to ensure they are prepared for the 30 September 2026 implementation date.

It is also important that firms' credit risk management practices align with evolving investment strategies, where we continue to see firms moving into newer asset classes and geographies. We will continue to focus in our supervisory work on the adequacy of firms' credit assessment frameworks, including the robustness of internal ratings where relevant. Firms should pay particular attention to exposures to private credit assets, given the risks identified by the Financial Policy Committee about the potential interlinkages and vulnerabilities of exposures to private markets in stressed conditions.[2] The Bank of England (the Bank) is launching a further **system-wide exploratory scenario** (SWES) in 2026 to focus on how private capital flows could affect market dynamics and financial stability, which will seek insights from a range of market participants including insurers.

New capital and ownership structures

We continue to observe additional capital and new investors seeking to enter the BPA market in different forms. The PRA is open to a diverse range of business models and ownership structures for UK life insurers, to contribute to a resilient and competitive UK life insurance sector which can provide policyholders with the protection and services they need and support investment and growth. Irrespective of ownership structure, the PRA expects the boards and management of all firms to run their business prudently in a way which supports their long-term safety and soundness, and

2 **Financial Stability Report – July 2025**; and **Financial Stability Report – December 2025**.

which reflects the long-term nature of their commitments to policyholders. Where entities are parts of wider group structures, we attach particular importance to the role that boards play in ensuring robust independent legal entity governance, and effective management of any potential conflicts of interest.

Life Insurance Stress Test (LIST)

In November the PRA published the **results of the 2025 LIST exercise**. As well as assessing sector and firm resilience to adverse scenarios, and strengthening market discipline and understanding, the exercise offered an important perspective on participants' risk management and assessment practices. The results will inform our supervisory approach at an individual level as well as our policy development work. In 2026 we will also gather feedback from firms and disclosure users to inform the scope and design of future exercises and disclosures.

General insurance priorities

In the general insurance market, we observe a continuing softening underwriting cycle in many lines of business, which may place pressure on pricing, terms and conditions, and reserving levels. This trend appears particularly pronounced in some wholesale lines in the London Market, as illustrated by the recent reinsurance renewal seasons. We expect boards to ensure that they maintain robust underwriting discipline in this weakening environment, and that they are pricing and reserving adequately given these market trends.

Optimistic underwriting assumptions in internal models

As we have highlighted in previous letters, we have been concerned that some firms are making assumptions in their internal models about future underwriting performance that are overly optimistic compared to their underwriting track record. In such cases, firms' solvency capital requirements (SCRs) could be understated, and this risk increases as the underwriting cycle weakens. We expect relevant boards to challenge management's assumptions robustly in this area. In 2026 we intend to increase our engagement with relevant firms with the most material differences in actual and assumed profitability in their internal models. Where firms cannot provide robust justification of their model assumptions including by reference to historical underwriting performance, we will consider what further supervisory action is necessary, drawing on the full range of tools available under Solvency UK, to ensure SCRs are not materially understated.

Exposure management

In our exposure risk management reviews across the London Market, we have found that a number of firms need to improve data quality and standards and need to continue to invest in their systems, tools and models to ensure these remain appropriate for an evolving risk landscape. High-quality data remains fundamental to sound prudential risk management and to ensure a clear and current understanding of exposure. We will engage with firms to seek improvements where we see poor exposure monitoring and management practices.

Delegated authority underwriting

Delegated authority business looks set to grow across the London Market, raising additional risks of inadequate pricing and reserving across the sector if not properly managed or overseen. We have also observed that firms' strategies for using such arrangements is not always clear. To ensure that underwriting standards are maintained, firms should ensure they have strong oversight arrangements in place to govern and monitor the performance of these arrangements, including consideration of how they would exit unprofitable arrangements. We will engage with relevant firms to explore this further.

Dynamic General Insurance Stress Test

In May 2026, the PRA will conduct the **Dynamic General Insurance Stress Test** (DyGIST), a semi-live crisis exercise simulating the dynamics of a market-wide event over a focused three-week period. This exercise offers the participating firms a structured opportunity to rehearse crisis response protocols, strengthen coordination, and identify areas for improvement. Working with Lloyd's, the PRA will use insights from DyGIST – including assessments of firms' risk management response capabilities – to inform our supervisory assessments. To prepare, participating firms should review and update their crisis management playbooks and test internal communications and coordination. The PRA will host a seminar for all DyGIST sponsors on 24 February 2026, and firms seeking further clarification on expectations may contact **dygist2026@bankofengland.co.uk**.

Cross-sectoral priorities

Operational risk and resilience

We expect operational resilience to be woven into the underlying risk culture of firms and be an integral part of their decision making. Firms' senior managers and boards should routinely consider how strategic changes such as new products, IT upgrades, and outsourcing affect resilience, particularly where there are implications for important business services. Following our review of firms' work to meet the 31 March 2025 deadline in **SS1/21**, we expect firms to continue to improve their operational resilience testing. This includes deeper engagement with third-party providers to assess the impact of severe but plausible scenarios involving operational disruption. The obsolescence of legacy technology infrastructure remains an important area for firms to address to improve resilience. While undertaking large-scale transformation programmes to address this, firms should also consider potential risks associated with change management and the adoption of cloud-based solutions.

Cyber risk also remains elevated in the geopolitical risk environment. Firms need robust capabilities not just to prevent breaches, but also to detect attacks quickly, respond effectively, and recover critical services within their impact tolerances. We will continue our CBEST and STAR-FS engagement for higher impact firms,[3] alongside similar initiatives undertaken by the FCA. For other firms, we may use the cyber questionnaire CQUEST, which some firms already use to complement their toolkit.

Solvent exit planning

2026 marks the implementation of our policy on solvent exit for insurers, under which all firms in scope[4] will need to prepare a Solvent Exit Analysis ('SEA') by 30 June 2026. The SEAs should be proportionate to the key risks facing the business and should include due considerations of any material barriers to solvent exit. This should consider the financial and non-financial resources required, a cost/benefit analysis of alternative options, and a determination of whether the firm writes business that may be difficult to substitute in the market. We are adopting a proportionate approach to review and will contact firms if we would like to review their SEA.

Artificial intelligence

Advances in technology, including the increasing use of Artificial Intelligence, present opportunities for firms to innovate products, their business models and operational efficiency and effectiveness. We see this innovation as key to a flourishing financial services industry that supports growth and competitiveness. However, these advanced technologies present novel risks, amplifying existing issues such as inaccurate data, reliance on third party providers and cyber risks. Firms need to adopt new technologies without compromising on safety and soundness.

3 **Operational resilience of the financial sector**.

4 PS20/24 – **Solvent exit planning for insurers**. This SS applies to all PRA-regulated insurers except firms in passive run-off, UK branches of overseas insurers and Lloyd's managing agents.

Facilitating competition, international competitiveness and growth

We continue to advance our secondary objectives for competition, international competitiveness and growth through our policy and supervisory approach. Shoib Khan's recent speech[5] highlighted how the PRA is continuing to support innovation in insurance markets by creating regulatory space, actively building a facilitating regulatory framework, and being innovative in our own supervisory approach. Our priorities for 2026 include the development of the new **UK captive regime**, on which we intend to consult in the summer of 2026 in time to launch the new regime in 2027. We have also implemented various reforms to our Insurance Special Purpose Vehicles regime to widen the types of insurance-linked securities structures available in the UK, and to streamline the authorisation process. Finally, we are seeking views on **alternative life capital options**, with the intention to remove barriers to patient capital entering the sector in a way that supports UK growth and is consistent with the long-term nature of life insurance liabilities.

We will also continue to pursue a range of other initiatives to support delivery of our secondary objective on competitiveness and growth.[6] This includes accelerating timelines for new firm authorisations and developing options that enable small/medium insurers access to a dedicated point of contact on regulatory matters, including when looking to launch new products.[7] We will continue working with the Financial Conduct Authority (FCA) to consider how best to support the **mutuals landscape** to drive inclusive growth in the UK.

Supervisory approach

Over recent years, the PRA has transitioned some firms from an annual cycle for PSMs to a two-year cycle. This adjustment has proven effective as it reflects the longer-term nature of supervisory workplans and allows firms and supervisors to focus resources more efficiently on identifying and remediating key risks. We are therefore planning in 2026 to commence the transition to a two-year PSM cycle for all firms which remain on an annual cycle. Reducing the number of PSMs, and associated communications and processes, will also reduce the regulatory burden on firms, in line with our secondary objective to facilitate UK competitiveness and growth. Your supervisor will provide details in due course on what this means for the timing of your firm's next PSM.

5 **Lighting the fuse for innovation in insurance − speech by Shoib Khan**.

6 See, for instance, our response to the Lords Financial Services Regulation Committee's report on this topic: **PRA response to the Financial Services Regulation Committee report**.

7 **PRA and FCA launch joint Scale-up Unit**.

This letter, in conjunction with your firm's PSM letter, should convey a sense of our planned work for 2026. We look forward to working with you over the coming year.

Yours sincerely

Gareth Truran
Executive Director, Insurance Supervision

Shoib Khan
Director, Insurance Supervision