

# UK Life and Annuity market: What's changed, what still matters and what's next?

**Now in the second half of 2025, the UK life and annuity market is continuing to transform. The past several months has brought meaningful shifts in insurer behaviour, regulatory positioning, and innovation.**

This edition of XPS Insurance Watch re-examines the market outlook, assesses how insurers are progressing against our original expectations. Many themes from earlier in the year continue to shape insurer priorities including regulatory adaptation, macroeconomic pressure, and the pursuit of competitive edge in the bulk purchase annuity (BPA) market – but meaningful shifts have emerged.

## Emerging themes in 2025 and beyond

Looking ahead, several themes have emerged to influence the market:

|                                                            |                                                                                                                                                                                                                           |
|------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>BPA market evolution</b><br>See page 2                  | Expect more innovation in the BPA market as insurers look to counter run-on propositions and more asset manager led M&A or partnerships to support growth and investment strategies.                                      |
| <b>Effective use of reinsurance</b><br>See page 3          | A new UK captive regime is expected to be on the way. This could open fresh avenues for onshore risk transfer and capital efficiency, but firms will need to demonstrate strong governance and risk management practices. |
| <b>Productive finance</b><br>See page 4                    | Regulatory incentives are accelerating investment in UK assets, yet sourcing suitable projects remains a bottleneck. Public-private collaboration will be key to unlocking deal flow.                                     |
| <b>Financial resilience and transparency</b><br>See page 5 | Published stress test results will raise the bar for balance sheet management and market communication. Firms that are better positioned against these scenarios could gain advantage.                                    |
| <b>Digital/AI transformation at scale</b><br>See page 6    | Competitive advantage will increasingly favour those who deploy AI and data analytics effectively in live environments. The gap will grow between digitally advanced insurers and the rest.                               |



The strategic imperatives from earlier this year remain fundamentally sound – but the pressure is rising. Insurers must now act with greater urgency to innovate, differentiate and defend margins in a more competitive, transparent and customer-driven landscape.

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## The BPA market is still buoyant, but the outlook is more moderate

After two years of record pension risk transfer activity, the UK BPA market entered 2025 at a more moderate pace. Total transaction volumes in the first half of 2025 are estimated at only £10-15 billion (below initial expectations), and XPS forecasts that the recent £50 billion annual peaks are unlikely to repeat in 2025, with full-year volumes projected around £40 - £45 billion.

### Deal-making remains vibrant

Over 150 buy-in/buy-out transactions closed in H1, predominantly at the small and mid-sized end of the market. This momentum reflects ample insurer capacity now targeting smaller schemes, resulting in a record number of total deals even as headline volumes dip. More insurers in the market have translated into increased bidding; XPS reports a rise in the average number of bidders per transaction in 2025, indicating intensifying competition for mid-market schemes.

The Prudential Regulation Authority (PRA) has reinforced its expectations for pricing discipline and sound risk governance considering this competition – its 2025 “Dear CEO” letter made clear that market share should not come at the expense of prudence.

### Pension reforms unlocking surplus

New government pension reforms have the potential to give schemes more flexibility to “run on” independently, thanks to proposed rules to unlock surplus refunds at low dependency funding levels. The ability to distribute surplus without a full insurance buy-out has prompted certain sponsors to pause and consider an “own-run” endgame. Nonetheless, our research suggests that most small and mid-sized schemes are still expected to continue targeting buy-out in the near term.



#### What's still true: The BPA market's fundamentals remain strong

There is high demand for BPA from pension schemes and supportive economics for insurers. With new entrants joining the space, competition has increased, and incumbent insurers are under pressure to stand out via innovative deal structures, superior member service, and operational efficiency.



#### What's shifted: The appetite for scheme “run-on” is rising

Trustees, emboldened by stronger funding positions and current gilt yields, are increasingly exploring run-on as a viable alternative to buy-out, which is likely to compress large-scale deal volumes going forward. A slower pipeline has led bigger players to compete more aggressively for mid-sized and even small schemes. This has intensified competition, particularly for deals under £250 million.

In response, insurers must deepen their value proposition with scheme trustees – for example, by offering flexibility on terms, tailored post-buyout services, and by demonstrating the operational sophistication and administration quality that come with economies of scale, e.g. delivering better member experience and financial security.



#### What's emerging: Asset manager-led M&A and partnerships

Asset sourcing strategies for insurers are more important than ever to enable competitive pricing. This has been a key area of focus as highlighted by recent developments: Legal & General's strategic partnership with Blackstone to access a broader private credit pipeline, and a wave of asset manager-led M&A activity. Notably, Athora's £5.7 billion acquisition of Pension Insurance Corporation – backed by Apollo – and Brookfield's £2.4 billion accepted bid for Just Group. Both transactions bring additional asset management firepower to support the growth and investment strategies of the acquired insurers.

# Macro-resilience becomes even more paramount

Economic uncertainty and market volatility continue to pose challenges in 2025. The first half of the year has seen global financial jitters – from bond market swings to geopolitical flare-ups – reminding insurers that resilience is paramount. The PRA has accordingly tightened its oversight of capital and liquidity under stress.

## Financial resilience

LIST 2025 was launched this year to assess the financial resilience of the UK's largest life companies. For the first time, the PRA will publish solo entity results for the top eleven annuity writers (alongside industry aggregates) by Q4 2025. This unprecedented transparency is set to hold insurers accountable to the market for their risk management.

## Regulatory initiatives

Other regulatory initiatives are coming to fruition. The PRA's new liquidity reporting framework (Consultation Paper 19/24) is being finalised this year, and large life firms will soon need to file detailed cash-flow mismatch reports and maintain robust liquidity risk appetite. Insurers will need to focus on their liquidity buffers (e.g. holding more high-quality liquid assets) and refine contingency funding plans, especially considering the bond market volatility seen in late 2024 and early 2025. The PRA's policy on solvent exit (finalised in December 2024) will come into force by mid-2026, requiring all insurers to maintain credible wind-down plans.



### What's still true: LIST 2025 will put a spotlight on balance sheet resilience

The decision to publish firm-specific results means insurers' capital management and risk models will be subject to unprecedented public and market scrutiny. C-suites should be preparing now – to ensure there are no unwelcome surprises and to be ready to communicate their resilience to investors and policyholders.



### What's shifted: Liquidity risk frameworks are tightening

New regulatory reporting requirements for liquidity (due by the end of 2025) will enforce more frequent and granular monitoring of insurers' cash-flow profiles. Boards are now paying closer attention to liquidity coverage ratios and 'dash for cash' scenarios, areas that were previously sometimes overlooked.



### What's emerging: Solvent exit planning has become a practical priority

Executive teams are now challenged to demonstrate how they could run off or transfer liabilities in an orderly way if ever needed – a stark reminder to prepare for extreme downside scenarios. Boards should be asking whether the firm's risk controls, and capital buffers are sufficient for a range of severe (but plausible) shocks – from sharp credit downturns, to longevity spikes, to cyber-attacks.



## Productive finance is building momentum, but pipelines remain challenging

The push to channel institutional capital into 'productive' UK assets remains at the centre of the political and regulatory agenda. The new government has doubled down on mobilising insurance capital for UK growth, launching a Financial Services Growth and Competitiveness Strategy at Mansion House 2025 with measures to unlock investment in long-term productive assets. Solvency II reforms (now Solvency UK) effective 31 December 2024 have already relaxed certain matching adjustment and risk margin rules, giving insurers greater flexibility to invest in illiquid and innovative asset classes.

Insurers have made notable strides on this agenda, deploying over £10.9 billion into UK infrastructure, housing and other private markets in 2024 alone. Phoenix Group, for example, has continued to develop in-house asset management capabilities over the past year, allowing more active and cost-effective management. The group increased allocations to private markets in 2024 and delivered robust capital generation through dynamic asset rotation and illiquid credit deployment. Legal & General also continues to scale its direct origination platform via L&G Capital, with a growing pipeline of real estate and infrastructure deals feeding into its matching adjustment portfolios.



### What's still true: The productive finance agenda remains a defining macro-policy theme

Solvency UK reforms have removed some, but not all, structural barriers to long-term investing and allow a broader range of assets to qualify for matching adjustment portfolios. The PRA remains cautious about any excesses. It has warned that even amid calls for growth, policyholder protection must remain paramount and solvency standards will not be compromised.



### What's shifted: Insurers continue to report difficulty sourcing scalable, investable UK projects that meet their return and risk criteria

The Association of British Insurers, through its Investment Delivery Forum, is working alongside HM Treasury's new National Wealth Fund to expand the pipeline of investable UK opportunities. These collaborations aim to bridge the gap between the supply of long-term capital and the availability of suitable domestic projects.



### What's emerging: Insurers will increasingly look to partner with specialist asset managers and public-sector bodies to broaden their asset mix

Active industry forums and new tools (such as the government's updated infrastructure project pipeline database) are being employed to identify opportunities. We also expect further regulatory initiatives – for example, the PRA's proposed "Matching Adjustment Investment Accelerator" – to speed up approval of new asset classes for Matching Adjustment portfolios and support the productive finance agenda.



## Effective use of reinsurance, but a strategic tool under the microscope

In the July 2025 Mansion House speech, the Chancellor reaffirmed the financial sector as a key pillar of UK economic strategy, with insurers featured prominently.

### UK's desire to be a leading risk transfer centre

One flagship proposal is the creation of a UK-based captive reinsurance regime to recapture risk transfer business currently flowing offshore. HM Treasury also launched a consultation to introduce a proportionate authorisation regime for captives – for example, by broadening the use of protected cell company structures – with the intent to “develop a captive insurance market in the UK” and cement the UK’s position as a leading risk transfer centre.

While directly written long-term life insurance is excluded, the reforms would still enable life insurers to write direct cover and use reinsurance captives to transfer risk which may allow firms to retain more risk onshore and improve capital efficiency.

### Funded reinsurance model gathers pace with caution

The funded reinsurance model – where insurers reinsure annuity liabilities with external investors via collateralised arrangements – has grown to c10% of BPA volumes in recent years. This can be an effective tool for risk transfer and capital relief, but regulators have signalled caution. The Bank of England (BoE) has warned that if the use of funded reinsurance expands significantly, it could lead to undue counterparty and concentration risks for the sector. In July 2024, the PRA issued Supervisory Statement 5/24 on funded reinsurance, setting out expectations to shore up risk management and safeguard policyholder protection. The PRA has also included a scenario analysing the impact of a sudden loss of funded reinsurance cover and full recapture of the risk in its Life Insurance Stress Test (LIST) 2025.



#### What's shifted: Increased focus on the UK as competitive hub for insurance captives

There is recognition that keeping more risk onshore (under UK supervision) could benefit the market, so long as it's done safely. The Mansion House 2025 announcements confirmed this – potentially allowing more flexible onshore risk transfer.



#### What's still true: Regulators have a growing interest in funded reinsurance

Firms embracing such innovative reinsurance structures must invest in rigorous due diligence, maintain prudent collateral arrangements, understand impact of recaptures, and be prepared for closer supervisory scrutiny going forward.



#### What's emerging: New alternative risk transfer solutions to explore

Forward-looking insurers should start to evaluate how they might leverage an onshore captive arrangement to optimise capital and reinsurance structures. Alongside this they should also anticipate continued scrutiny of reinsurance counterparty exposures and be ready to demonstrate the financial resilience of these arrangements.



## Digital and data transformation moves from pilots to production

Insurers' approach to digital transformation is becoming more mature and execution focused. The bar is rising fast for automation, analytics and real-time engagement across the industry. Recent examples illustrate the shift from experimentation to implementation.

**Phoenix Group** has rolled out new digital tools and inclusive online services to improve customer financial wellness and deepen engagement, particularly across its legacy Standard Life customer base. By leveraging data analytics and personalised digital journeys, Phoenix aims to increase retention and cross-sell in its retirement business – a critical strategy as it pivots from closed-book administration to a growth-oriented, customer-centric model.

**Legal & General** has launched an ambitious “AI for Business Value” upskilling programme to embed AI literacy across its workforce. In partnership with a technology educator, L&G is enrolling employees from diverse functions – from investment analysts to operations staff – in a 13-month apprenticeship on practical AI skills. The goal is to empower teams to identify automation opportunities and implement AI solutions responsibly in day-to-day work.

**Aviva** has now deployed over 150 AI and automation pilots, with many moving into production across operations, underwriting, fraud detection and claims. Aviva reports a 20% improvement in average claims processing times due to digital triage and natural language processing in customer communications.



### What's still true: Legacy IT systems remain a barrier to agility for many insurers

Even as front-end digital offerings improve, back-end core platforms (policy administration, claims, finance systems) can lag, limiting the speed and extent of transformation. Additionally, while IFRS 17 accounting has now been implemented industry-wide, most insurers are still working to embed and automate these reporting processes into “business as usual” – which continues to strain actuarial and finance teams each quarter.



### What's shifted: There is a clear strategic shift from digital planning to digital doing

Insurers are no longer just talking about transformation – they are executing concrete projects with AI, data analytics, and cloud platforms to enhance performance. Crucially, the focus is now on measurable value: reducing unit costs, improving turnaround times, and boosting customer satisfaction metrics. We also see AI pilots being rapidly scaled across business units, moving from innovation labs into core operations and customer service.



### What's emerging: Digital transformation will only accelerate through 2025 and beyond

Areas like generative AI, advanced analytics, and ecosystem partnerships (InsurTech collaborations) are poised to become mainstream components of insurers' operating models. In the coming 12 months, we expect to see more insurers appointing Chief Digital or Data Officers. The competitive gap will widen between carriers that successfully integrate new capabilities versus those that lag. This puts a premium on effective transformation governance – having a clear business case for each tech investment and strong execution oversight.



# New standards in full force for consumer centricity and conduct

The Financial Conduct Authority's (FCA) Consumer Duty – described as a once-in-a-generation change in conduct regulation – became fully effective for all financial products (including legacy and closed-book business) on 31 July 2024. It requires insurers and other firms to prove that their products deliver good outcomes for customers, and to embed a consumer-centric mindset in everything from product design and pricing to post-sale service.

Now, one year on, the FCA is actively supervising how well firms are performing and has identified several areas where improvement is needed. Insurers have been urged to ensure fair value in long-standing products, improve the clarity of customer communications, and strengthen oversight of distribution partners – all to ensure products genuinely serve customers' best interests.



## What's still true: The principle of putting customers' outcomes first is here to stay

The FCA has made clear that compliance is not a one-off project but an ongoing obligation. Many firms have already taken steps – revisiting fee structures, simplifying terms & conditions, and enhancing support for vulnerable customers – but the regulator expects continuous monitoring and refinement.



## What's shifted: Strategically, insurers need to move beyond tick-box compliance

Insurers should use the Consumer Duty as a catalyst to modernise their offerings and customer engagement. This means making tough decisions about legacy products: do they genuinely meet today's customer needs, and if not, how can they be improved or phased out? Pricing strategies are being revisited to avoid any “loyalty penalties” for long-standing policyholders. There's also a drive to invest in data and analytics to track real customer outcomes (e.g. persistency rates, claims paid ratios, complaints) and to demonstrate tangible improvements over time.



## What's emerging: Delivering good outcomes will drive competitive advantage

While operationally challenging – especially for older books and complex distribution chains – this shift is also an opportunity to rebuild trust in life insurance. The firms that can transparently show value for money (for example, through more flexible products, fair profit-sharing on with-profits funds, or enhanced guidance at retirement) will not only avoid regulatory sanction but may gain a competitive edge.



## ESG and the new supervisory normal

Plans for a standalone UK “Green Taxonomy” have been shelved in favour of aligning with global standards (such as the new ISSB disclosures), to avoid duplication and keep reporting internationally consistent. With this said, the pace of regulatory reform has not slowed; it has broadened into areas like operational resilience, ESG delivery, and culture.

Leading insurers are responding by enhancing transparency – publishing detailed annual sustainability reports and interim progress updates – and by linking executive remuneration in part to ESG targets. For example, a recent survey by KPMG found that 78% of large, publicly listed businesses surveyed across 15 countries are now linking sustainability targets to executive pay.



### **What's still true: Climate transition planning has moved from a voluntary exercise to a regulatory expectation**

Climate change mitigation is now firmly on the supervisory agenda alongside financial metrics. Insurers are expected to manage climate risks and opportunities with the same rigor as financial risks.



### **What's shifted: Increasing focus on UK's net-zero objectives**

The Government has launched a consultation on proposed requirements for all UK insurers to publish Paris-aligned transition plans – essentially roadmaps showing how they intend to decarbonise their operations and investment portfolios by 2050. This follows Labour's 2024 election manifesto commitment to mandate 'credible transition plans that align with the 1.5°C goal of the Paris Climate Agreement.



### **What's emerging: Regulators will look at how embedded ESG initiatives really are**

The PRA has found that climate scenario analysis by insurers is often inconsistent and that governance of ESG risks can be patchy. We anticipate that ESG considerations will move firmly into internal audit and board risk committee remits over the next year. The new supervisory normal is one where financial and non-financial metrics alike are subject to challenge, and only a genuinely integrated approach will satisfy stakeholders.



## Strategic priorities reaffirmed with sharper focus

The themes that defined the January edition of XPS Insurance Watch remain valid, but insurers must now deliver faster, more visibly, and with greater discipline.

### To succeed through 2025 and beyond, insurers must:

- 1** **Innovate in product and investment design – especially in the BPA space, where the value proposition must evolve beyond price alone (e.g. differentiated post-sale services, flexible risk-sharing structures, enhanced asset management capabilities etc)**
- 2** **Engage deeply with regulatory reform – not just to comply, but to help shape how new rules (Solvency UK, Consumer Duty, etc) can support sustainable business growth and solvency integrity**
- 3** **Embed technology and data at scale – with initiatives that clearly demonstrate efficiency gains, better customer outcomes, and improved risk management. The era of small pilots is ending; measurable impact is expected**
- 4** **Demonstrate ESG progress credibly – through transparency, accountability, and tangible delivery on climate and social commitments. This means integrating ESG into core strategy and reporting on it with the same rigor as financial KPIs.**

The UK life and annuity market is active. The opportunity set remains vast, from pension de-risking to retirement wealth management to infrastructure investing. However, winning in this next phase will depend on execution quality, differentiation, and the ability to align financial strength with innovation, regulation, and societal purpose.

Insurers must act decisively, not just to keep pace but to lead, as the industry navigates a more competitive, transparent, and customer-driven landscape in late 2025 and beyond.



## About us

**XPS Group** is a leading UK consulting and administration business specialising in the pensions and insurance sectors. A FTSE 250 company, XPS combines expertise and insight with advanced technology and analytics to address the needs of over 1,300 pension schemes and their sponsoring employers on an ongoing and project basis. We undertake pensions administration for over one million members and provide advisory services to schemes and corporate sponsors in respect of schemes of all sizes, including 86 with assets over £1bn. We also provide wider ranging support to insurance companies in the life and bulk annuities sector.

## Find out more

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