

UK Life & Annuity Market: Strategy is settled. Capability is the constraint.

For years, the challenge has been deciding where to compete. In 2026, the challenge is how to build the capability to succeed. Across five themes, we examine the operational, technology and governance imperatives that will define competition in the years ahead, and consider what leaders should be doing now.

In January, we set out themes for 2026 and three underlying realities: competition in pension risk transfer had changed significantly, regulators were tightening around structural risk, and legacy complexity had become the enemy of resilience.

Six months on those underlying realities have held. What has become clearer is where the constraint now sits. The differentiator in the second half of 2026 is not strategic intent but capability: whether firms can manage assets with genuine sophistication, service members at scale, and demonstrate resilience on demand.

Emerging themes for the second half of 2026

Pension risk transfer:

We expect significant acceleration in volumes in H2 relative to H1. Member servicing has moved from hygiene factor to differentiator and is now a Board priority rather than solely an operational one.

Platform consolidation:

More consolidation is likely ahead. The emerging development is how new business is capitalised, alongside the question of who owns the balance sheet.

ALM and investment sophistication:

Insurers are developing integrated capability across profitability, capital and liquidity to help pursue capital efficiency and enhance return optimisation.

AI adoption:

The shift from efficiency to foresight is the defining capability gap, and smart AI tools now offer a much faster route through legacy product complexity.

Risk modernisation:

Resilience is no longer defined solely by a framework. It depends on having evidence, and having a risk function equipped to provide it.

Priorities for the second half of 2026

These priorities reflect a common theme running through the market: strategy is increasingly well understood, but capability remains the key differentiator.

1

Capability to serve

Treat member servicing as a strategic capability. Quantify transition and servicing capacity against your pipeline, and put it in front of the Board and second-line before a trustee does.

2

Capability to decide

Build an integrated profitability, capital and liquidity capability. Ahead of September's liquidity reporting deadline and the deeper supervisory assessment that follows, treat this as a decision-making tool rather than a compliance output.

3

Capability to look forward

Move AI from efficiency to foresight. Prioritise reporting, scenario analysis and forecasting, and use AI to unlock the legacy product complexities that have stalled rationalisation.

4

Capability to evidence

Shift resilience work from framework to proof. Assume every requirement landing in 2026 and 2027 will be tested on the quality of the evidence, not the existence of the policy.

One conclusion: competitive advantage now depends less on what insurers plan to do and more on their ability to execute, evidence and adapt.



The strategic direction we set out in January hasn't changed, and it shouldn't. What has changed is the nature of the challenge. The firms pulling ahead in 2026 are not those with better plans; they are those with better capability.

Sophisticated asset strategies, credible member servicing and evidenced resilience all depend on integrated data, technology and decision-making that most firms are still building.



David Honour
Head of Insurance Consulting

Five key themes for 2026

1. Pension risk transfer

Pricing gets you shortlisted. Servicing wins the mandate.

Final figures confirm a market that grew in activity while moderating in size. There were 370 buy-ins in 2025, up from 307 in 2024, with total volumes of £38.2bn against £47.8bn in 2024 and the 2023 peak of £49.1bn. Of those transactions, 307 were £100m or smaller. Legal & General's £4.6bn Ford buy-in was the largest publicised transaction, while Just Group wrote 130 deals, the most by any single insurer in a year.

We expect up to £40bn of deal volumes in 2026, supported by growing insurer capacity and continued competition at the small and mid-sized end of the market. The slower start to H1 will be offset by a busy H2, putting pressure on insurers' new business teams. How much capacity larger schemes absorb in the second half, and at what price, is the open question.



What's still true:

Fundamentals remain strong and pricing remains competitive

Funding levels continue to support demand. XPS data puts UK defined benefit scheme assets at £1.168tn against liabilities of £933bn at 30 June 2026, an aggregate surplus of around £236bn and a funding ratio of 125%. The Pensions Regulator assesses that 60% of DB schemes are now in surplus on a buyout basis.

Competition remains intense. Eleven insurers completed transactions in 2025, the highest number on record, and capacity has grown again in 2026. Against that backdrop the PRA remains concerned that competitive pressure may create incentives to weaken pricing discipline or risk management standards.

Firms without scale or a clearly articulated niche face increasing strategic pressure.



What's shifted:

Member servicing has become a decision factor, not a hygiene factor

Member servicing is now a visible determinant in transaction outcomes. Trustees are weighing administration quality, transition capability and the ability to handle scheme-specific complexity alongside price, and several recent mandates have been decided on that basis.

Capacity is the reason. There has been a threefold increase in individual policy issuance within two years which has presented a significant operational scaling problem, and it carries conduct, complaint and reputational exposure. In our experience, schemes are increasingly delayed on the journey to buyout by administrator capacity constraints, and insurers are managing queues of schemes finalising data cleansing. This belongs on Board agendas and within second-line assurance plans, not solely within operations.



What's emerging:

Insurers now compete against multiple alternatives

The Pension Schemes Act received Royal Assent on 29 April 2026, establishing a legislative framework for superfunds and amending defined benefit surplus distribution rules. Draft surplus regulations were consulted on in June 2026, with the package expected to come into force in April 2027. XPS research indicates UK DB schemes could generate up to £170bn of surplus over the next decade, and that 41% of medium to large schemes are now considering run-on strategies.

Insurers are responding with structure as well as price. M&G has completed its first with-profits bulk annuity transactions, sharing potential upside with members rather than only transferring risk, and is targeting £3-4bn of annual bulk annuity sales by 2027.

Insurers are also making the security argument more explicitly. Where run-on and other non-insurance arrangements depend on the continuing strength of a sponsor covenant, insurers are reminding trustees that a regulated and capitalised balance sheet protects member benefits through periods of uncertainty in a way a covenant cannot guarantee.

2. Platform consolidation

Ownership continues to change, and so does how new business is funded.

The transactions we highlighted in January have completed. Athora's acquisition of Pension Insurance Corporation received regulatory approval on 6 March 2026, followed by Brookfield Wealth Solutions' acquisition of Just Group on 1 April 2026. JAB's acquisition of Utmost is expected later in the year. Brookfield's own insurer, Blumont, is set to be merged into Just Group.

Consolidation has since extended beyond annuity balance sheets to distribution and scale. Standard Life announced a £2bn acquisition of Aegon UK on 15 April 2026, creating a business with £480bn of assets under administration and 16 million customers, expected to complete around the end of 2026.



What's still true:

Scale and asset origination remain the strategic test

The platform thesis we described in January, of insurance as a long-duration capital platform underpinned by asset origination and permanent capital, has been proven. More consolidation is likely, and 2026 announcements already point that way. In February, Chesnara agreed to acquire Scottish Widows Europe from Lloyds Banking Group for €110m, its second acquisition in twelve months, adding €1.7bn of assets under administration and around 46,000 policies.

Scale pressure is reaching the mutual sector too. OneFamily and Scottish Friendly announced proposals to merge in the same month, creating a mutual with almost £10bn of assets under management and more than 2.3 million members, effective from early 2027.



What's shifted:

Capital is being raised alongside ownership, not only through it

What was speculation has now crystallised into a transaction: Standard Life has announced Standard Life PRT Solutions, a strategic partnership with a consortium including CVC, Prudential Financial, Goldman Sachs, MS&AD Insurance Group and others. The arrangement will provide up to £2bn of initial capital, expected to be drawn over five years, increasing its capacity to transact larger and more complex UK pension risk transfer business. Standard Life retains operational control, while the other members of the consortium will provide £1.5bn of the capital plus access to specialist private-markets capabilities for both new and existing business. The arrangement is subject to regulatory approval.

This deal demonstrates that private capital can fund new business and broaden capability, without giving up the platform. The question for all Boards is therefore not only who owns us, but who funds our growth and on what terms.



What's emerging:

Ownership and governance structures must keep pace

The Government is supportive of productive finance and new capital entering the market and open to diverse business models and ownership structures. The PRA will want to test whether ownership and governance arrangements have kept pace: clear legal-entity governance, and effective management of conflicts within increasingly complex group chains. Firms should expect that to be examined rather than assumed.



3. ALM and investment sophistication

The capability gap at the centre of the market.

Private capital has brought asset origination and spread economics to the front of the competitive agenda, in a market where incumbents historically competed on underwriting and capital efficiency. At the same time, one of the traditional levers is being repriced.

On 29 April 2026, the PRA published CP8/26, proposing changes to the calculation of the Counterparty Default Adjustment for funded reinsurance. The intention is to bring its treatment closer to that of economically similar assets and reduce incentives for excessive use. Arrangements where all risks are fully transferred on or before 30 September 2026 would be grandfathered, with formal implementation on 1 July 2027. The consultation closed on 31 July 2026, with initial industry commentary highlighting the presence of governance, collateral, and recapture planning mitigations. The PRA has not proposed volume limits, but has explicitly retained them as a future option.



What's still true:

The toolkit continues to widen, but the asset supply question remains

The Matching Adjustment Investment Accelerator has been available since 27 October 2025, with the PRA reporting early interest from annuity writers. The PRA is also considering responses to its discussion paper on broadening life insurers' access to alternative third-party capital, which closed in February 2026.

The Government has welcomed ABI figures showing UK life insurers invested £16.8bn in UK productive assets between 2024 and the end of the first half of 2025. As we have noted previously, the constraint has never only been regulatory permission. It is whether there is a sufficient pipeline of investable UK assets of the right scale, duration and credit quality. Unless supply keeps pace with the flexibility now being created, insurers will continue to deploy capital in markets outside the UK.



What's shifted:

Strategies are becoming more complex

The PRA has noted that as corporate bond spreads have remained narrow, some firms have made greater use of structured and synthetic investments, which can introduce liquidity risk and potential leverage. It expects firms to pay particular attention to private credit exposures. Complexity of this kind raises the standard required of the tooling behind it, not only the judgement in front of it.

Firms that want genuinely sophisticated asset and liability management need integrated capability. That means a single, timely view bringing profitability, capital and liquidity into the same decision, supported by technology that can produce it at the pace the market now demands. This is where ambition most often outruns infrastructure.



What's emerging:

Liquidity supervision is about to step up

New liquidity reporting requirements take effect from 30 September 2026, with no phasing. The more important signal is what follows. The PRA has said that after implementation it intends to deepen its supervisory assessment of insurers' liquidity profiles. It expects firms to understand aggregate cash-flow and collateral demands, articulate clear risk appetites and limits, and test exposures under stress.

The July Financial Stability Report points to continuing vulnerabilities in private markets, including high leverage, complexity and opacity.



4. AI adoption

From efficiency to foresight.

AI is moving from prediction to comprehension. Adoption is broad but shallow. The 2026 Evident AI Index for Insurance found that 20 of 30 insurers now report at least one AI use case with disclosed outcomes, an increase of eight year-on-year. But 49% of disclosed use cases remain narrow, focused on speed, cost reduction and process efficiency, with only 8% pointing towards agentic reasoning, improved decision quality and connected workflows.

UK regulators are building their own picture. The most recent joint Bank of England and FCA survey found that only 2% of AI use cases were fully autonomous, and that while 34% of firms reported complete understanding of the AI they use, 46% had only partial understanding. The 2026 survey went live in June and closed to responses on 31 July, extending coverage to agentic AI for the first time. Its results will reset that baseline.



What's still true:

Value has to be evidenced, not asserted

The bar we described in January, of measurable impact rather than pilots, remains the right one. What has changed is that disclosure of outcomes is becoming a peer benchmark in its own right.

Regulatory attention has caught up. AI is identified as a supervisory priority in the PRA's 2026 letter for the first time, covering data quality, third-party dependency and cyber vulnerability. We believe firms will need to map their AI use cases, and Boards will need visibility over them. The FCA has placed responsible AI use within its growth and innovation priority, and has said it will consider how firms are ensuring good outcomes for consumers with closed-book products. The Financial Policy Committee has identified greater use of AI in banks' and insurers' core financial decision-making among its areas of focus, and the Bank has begun examining how autonomous systems behave in financial markets.



What's shifted:

The highest-value use case has moved to the finance and risk stack

The significant step forward over the next eighteen months will be the move from retrospective reporting to proactive forecasting, scenario analysis and automated narrative reporting. This is where AI intersects directly with the capability gap described above.

Systems that execute multi-step processes, rather than answer questions, change the economics of servicing, claims handling and administration. That matters directly to the member servicing pressure described earlier, and it will separate firms in both customer-facing and back-office work over the next two years. The control environment has to be built alongside the capability rather than retrofitted to it. Audit trails must capture both system actions and model reasoning, plus defined human checkpoints and continuous monitoring, at a minimum.



What's emerging:

Legacy product complexity is finally tractable

Product rationalisation has moved slowly and that is not a failure of intent. The blocker has always been the cost and risk of understanding legacy books: thousands of product variants, inconsistent data and undocumented features accumulated across decades of acquisition. Diagnostic work has historically required large teams reading policy documentation manually, and business cases have rarely survived that cost.

That has now changed. Smart AI tools can read policy documentation, system records and administration data at scale, map product features and variants, identify inconsistencies between documented and administered terms, and surface the customer cohorts most affected. Work that previously took years of manual effort can be compressed into months, at a cost that allows firms to decide on evidence rather than defer. For the first time, firms have an efficient way to overcome legacy product complexity. We expect those that act within the next twelve months to establish a lasting advantage in both cost and service over those that delay.

These use cases will ultimately reduce the cost of product change and compliance, including Consumer Duty, and collation of evidence will become easier.



5. Risk modernisation

Demonstrating resilience, and proving effectiveness.

Two requirements have landed within six months. The deadline for firms to have a compliant Solvent Exit Analysis in place passed on 30 June 2026, with assurance over solvent exit preparations proving as demanding as the analysis itself. And on 18 March 2026 the FCA and PRA published final policy statements introducing a unified framework for reporting operational incidents and material third-party arrangements, effective from 18 March 2027. That makes the remainder of 2026 the implementation year.



What's still true:

Transparency raises the bar, and the second-line agenda keeps widening

LIST 2025 confirmed that the eleven largest UK annuity writers, accounting for more than 90% of annuity liabilities, are resilient to a severe financial market stress. It also showed that recapturing reinsured liabilities under stress can significantly affect solvency. With firm-level results public and the next exercise scheduled for 2028, resilience is a matter of market communication as well as prudential compliance.

The Bank's second System-Wide Exploratory Scenario extends the same logic to private markets. Involving more than 40 participants including insurers, it probes vulnerabilities that the Financial Policy Committee has flagged: leverage, opaque valuations, and interconnection with other risky credit markets. It is not a test of individual firm resilience or solvency, but of whether behavioural responses to a stress would amplify or dampen it, with interim findings due later in 2026 and a final report in 2027.



What's shifted:

Resilience means evidence, not frameworks

Each of the requirements above is fundamentally an evidence obligation. Boards are being asked to demonstrate, with data and on request, that exit is executable, that dependencies are mapped and incidents can be classified and reported consistently. Firms that treated the underlying frameworks as documentation exercises are discovering the difference between having a plan and being able to evidence its effectiveness.

The same shift is visible outside prudential regulation. Provision 29 of the UK Corporate Governance Code requires Boards to declare whether material controls operated effectively at the balance sheet date, with the first declarations due in early 2027. For listed insurers, this means controls that are transparent and auditable by design and tested during the year, rather than reconstructed at the end of it.

Third-party oversight is moving the same way, from static due diligence at onboarding to continuous reassessment across the life of the arrangement. Firms with EU entities already maintain a register of ICT third-party arrangements under DORA, updated continuously, with the depth of review scaled to how critical the service is. The UK framework introduces a structurally similar register of material third-party arrangements from March 2027, broadly aligned with DORA. Firms subject to both should build one authoritative record of their third-party ecosystem.



What's emerging:

Scrutiny of the effectiveness of the risk function itself

The direction of travel is for the risk function to move from a cost centre and control checker to a proactive strategic partner: equipped to anticipate emerging threats, to challenge transformation programmes before they are committed, and to give the Board a defensible view of where controls actually stand. That depends on secure and well-governed technology, clear ownership of complex third-party ecosystems, and controls that support regulatory compliance and customer protection at the same time rather than trading one against the other.

The regulatory pull is already apparent in Periodic Summary Meeting (PSM) letters and in some instances S166 reviews. The PRA expects appropriate risk appetite and credit assessment frameworks, including robust internal ratings, with particular attention to private credit.



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