

Steering the UK Life and Annuity market in a time of change and opportunity

As we head into 2025 the current market for UK life and annuity insurance companies offers huge potential to thrive but capitalising on the opportunity will require shrewd decision making and investment in strategic areas.

Navigating this landscape requires a balance between responding to regulatory reform, adapting to economic volatility, embracing technological innovation, and aligning with government priorities such as productive finance.

This first edition of XPS Insurance Watch looks at recent developments and offers clear, solution-focused guidance to industry leaders, as we look ahead to 2025.

Five key questions the Insurance C-suite need answers to now

1

With the Consumer Duty now in full effect, what further steps are needed to ensure your products and services are transparent, consumer-centric, and compliant with the latest regulatory expectations?

2

As technology continues to reshape the industry, what investments are you making in digital transformation to differentiate services, build new capabilities, improve operational efficiency, and enhance customer engagement?

3

With greater scrutiny and disclosure on the resilience of your balance sheets, do you need to enhance your risk management and liquidity practices, and/or enhance communication of your practices externally?

4

How do you adjust your investment strategies to align with the new Solvency UK reforms and actively contribute to national priorities without compromising policyholder protections and returns?

5

How are you integrating ESG criteria into your core business strategy to not only meet regulatory requirements but also to drive long-term value creation for your stakeholders and demonstrate leadership in sustainable insurance practices?



By addressing these questions, insurers can position themselves not just to navigate challenges but to seize opportunities in a rapidly evolving market.

David Honour
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A buoyant Bulk Purchase Annuity (BPA) market

The BPA market in the UK continues to flourish, with approximately £50 billion in transactions expected to be completed in 2024. This growth is fuelled by a combination of favourable economic conditions and continued demand from defined benefit (DB) pension schemes seeking de-risking solutions. Yet, the market is not without its challenges.

Strategic decisions that face insurers in this area are:



Competition intensifies

Recent new entrants have injected fresh competition into the BPA market which will increase pricing pressures – with more expected in 2025. While this benefits pension schemes, it demands that insurers differentiate through innovative structures, enhanced member experience, and operational efficiency. Firms need to balance competitive pricing with maintaining robust risk management practices. We believe that established players will increasingly focus on ensuring profitable growth rather than scale at all costs.



Product innovation

Increased competition is also driving product innovation and providing greater options for smaller schemes and those not ready for full buyouts. The growing popularity over 2024 of deferred premium BPAs highlights insurers' ability to tailor solutions. These innovations demonstrate adaptability but require careful actuarial and investment planning. The Prudential Regulation Authority (PRA) has also signalled its intention to stay close to the funded reinsurance market given its rapid growth and perceived risks.

The vision for productive finance

Labour's push for productive finance represents a cornerstone of its economic agenda. Insurers, pivotal to its success, are asked to align with policies designed to channel capital into renewable energy, infrastructure and affordable housing. However, this initiative presents a delicate balancing act. The PRA is cautious about any further relaxation of solvency standards that could compromise policyholder protections.

Strategic decisions that face insurers in this area are:



Balancing returns and regulation

Securing long-dated infrastructure investments that align with the new government's productive finance agenda offers both a challenge and an opportunity. For insurers, these opportunities also come with fiduciary considerations. They must navigate the tension between regulatory requirements and the need to deliver competitive returns on these investments, while ensuring policyholders are protected.



Sourcing new assets

Solvency UK reforms, effective from 31 December 2024, have recalibrated the Matching Adjustment (MA) rules. The relaxation allows insurers to explore new asset types, but this requires robust due diligence and risk modelling. Further there is competition with overseas markets which will impact insurers' willingness to align their investment portfolios with the national priorities. Additional tax and regulatory incentives may be needed to achieve the desired outcomes.

Macro-economic risk and opportunity

The macroeconomic environment remains both an enabler and a challenge.

Strategic decisions that face insurers in this area are:



Inflation and consumer needs

Inflationary pressures are shifting retiree preferences towards inflation-linked annuities, which offer protection against rising costs. Insurers must continue to innovate products to meet this demand while safeguarding their margins.



Economic volatility

Exposure to economic uncertainty will be under more scrutiny, with the publication by the PRA of individual insurers results, from the Life Insurance Stress Test (LIST) 2025 exercise and through the PRA's solvent exit policy that was finalised on 18 December 2024 and that comes into force on 30 June 2026. The PRA also published its consultation on 11 December 2024 proposing a new liquidity reporting template for large insurance firms. This aims to build on the existing liquidity framework following the recent market wide stresses experienced (e.g. 2020 'dash for cash' from COVID-19 and 2022 liability driven investment crisis). Insurers will need to prioritise stress-testing and scenario planning; and ensure required protections are in place.

Regulatory initiatives and priorities

In addition to Solvency UK reforms, LIST 2025, new liquidity reporting requirements and solvency exit planning requirements, there are wider changes shaping the industry, such as Consumer Duty and ESG.

Strategic decisions that face insurers in this area are:



Consumer duty

The Consumer Duty, which took full effect for closed products on 31 July 2024, represents a cultural shift in regulatory expectations. Insurers are now required to demonstrate that their products deliver good outcomes for consumers, with significant implications for pricing, product design and customer engagement. The operational challenges of implementing these requirements, particularly for legacy products is significant. However, it also provides an opportunity for insurers to rebuild consumer trust by enhancing transparency and tailoring offerings to meet evolving customer needs.



Green finance and ESG compliance

Insurers are increasingly aligning their investments with sustainability goals, guided by frameworks like the UK Green Taxonomy and the Transition Plan Taskforce (TPT) guidelines. The TPT will mandate climate transition plans for insurers in 2025. In addition, insurers must prepare for heightened scrutiny as COP29, and other global initiatives push for more robust climate risk disclosures.

Empowering capabilities with technology

Digital transformation is no longer optional for insurers. To stay competitive, firms must embrace advanced technologies.

Strategic decisions that face insurers in this area are:



Product development

AI and advanced analytics enable insurers to design personalised products that adapt to real-time data, offering tailored solutions to meet evolving customer needs. The growth in customer engagement platforms delivered through new InsurTech has also exploded. These platforms are helping drive new customer experiences and incentives via gamification.



Legacy systems

Many insurers face challenges integrating these innovations into outdated IT infrastructure. Strategic technology investments are necessary to unlock efficiencies and enhance customer experiences. Further work is also required to fully embed IFRS 17 into business-as-usual operations. It is debatable how successful insurers have been with their historic transformation attempts. As we move into 2025, we expect greater focus on how insurers develop the business case to support the next wave of transformation and much more robust governance on the execution of these initiatives.

Strategic priorities for insurers

For industry leaders, success will depend on the ability to:

- ▶ Innovate in product design and investment strategies.
- ▶ Align with regulatory changes and support the productive finance agenda.
- ▶ Harness technology to improve operational efficiency and customer satisfaction.

Emerging themes for 2025 and beyond

Looking ahead several themes are poised to influence the UK life and annuity market:

BPA evolution	Continued growth and increased competition in this market will drive innovation in structures, pricing and investments; and increase focus on member service and operational factors.
Regulatory and policy alignment	Continued scrutiny of the resilience of the insurance industry and further initiatives aimed to align insurance practices with economic and social policies.
Consumer centricity	Expanded focus on modular, personalised insurance solutions with enhanced engagement models to support better wellbeing and financial outcomes.
Digital ecosystems	Investment in integrated platforms combining customer-facing interfaces with advanced analytics that deliver new customer experiences and drive operational efficiency.
Effective reinsurance	Continued use of effective reinsurance structures to enhance agility, facilitate greater capacity, and to manage longevity risk on insurers' balance sheets.

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Find out more

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