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UK Prudential Regulation Authority Announces Its 2026 Supervision Priorities for Insurers

Executive Summary

- **What's new:** The PRA has published its 2026 supervisory priorities for UK life and non-life insurers, which include some interesting inclusions and omissions.
- **Why it matters:** These developments are relevant to all PRA-regulated insurers and market participants, as they highlight the regulator's focus for the year ahead.
- **What to do next:** Firms should familiarise themselves with the PRA's priorities for 2026 and consider the potential impact on their businesses.

On 15 January 2026, the UK Prudential Regulation Authority (PRA) published its supervisory priorities for 2026, outlining in letters its sector-specific priorities for the coming year to all banks, building societies (a form of member-owned savings and loan business), insurers and other PRA-regulated firms. While not exhaustive, this provides firms with helpful insight into the conversations they are likely to have with the regulator across the coming year, informed by what the PRA is seeing and hearing across the market.

The PRA's 2026 [insurance priorities letter](#) outlines specific priorities for each of the life and non-life insurance sectors, as well as certain cross-sectoral priorities. In our view, there are three key overarching themes touched upon across the letter, as summarised below:

- **Commercial risk.** Relevant to firms operating in either the life or non-life insurance sectors, the PRA has made clear to firms that sound risk management should not be jeopardised in response to competitive pressures. In particular, relevant to the life sector, the PRA highlights that the bulk purchase annuity (BPA) market continues to be very competitive (solvency-triggered termination rights and potential risks of those contract features will be a focus for the regulator in 2026), while reiterating previously articulated concerns on the growing use of funded reinsurance (Funded Re, also known as asset-intensive reinsurance). The PRA intends to provide an update on discussions held with industry last autumn regarding Funded Re in Q2.

In respect of the non-life insurance market, the PRA has observed a continuing softening in the underwriting cycle in many lines of business, in turn setting down a marker that firms should be conscious of overly optimistic underwriting assumptions in their internal models. The PRA appears keen to reiterate that firms must carry out their activities responsibly, irrespective of what the market may throw at them.

- **New year, not necessarily new priorities.** In many respects the PRA's 2026 priorities are aligned with those it had for 2025 (if not also those from earlier years). For example, in addition to the above, themes already addressed include the importance of data quality and firms investing in their systems, tools and models to ensure

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these remain appropriate for an evolving risk landscape, and operational risk and resilience — including in relation to cyber risk. In addition, the letter tracks the conclusion of various reforms including the matching adjustment accelerator provisions, results of the Life Insurance Stress Test (LIST), and the implementation of the liquidity reporting requirements and solvent exit planning reforms this year. With respect to investment strategies, both liquidity risk and credit risk were highlighted. The PRA notes the Bank of England 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.

However, unlike previous years, the PRA has expressly highlighted the increased use by firms of artificial intelligence (AI). That said, we consider the discussion of AI within the PRA's letter to be balanced, with both the current and future opportunities having been highlighted alongside the risks it poses (which the PRA acknowledges can be novel). This inclusion follows a 5 December 2025 [article from the PRA](#) about its own deployment of AI, which analyses how the PRA has started using AI to help codify its initial judgements and spot reserving risks more promptly. Following on from LIST there will be a Dynamic General Insurance Stress Test (DyGIST) in May 2026. This will be a semi-live crisis exercise simulating the dynamics of a market-wide event over a focused three-week period.

- **Governance and oversight.** The message from the PRA on a number of the specific topics it has highlighted can, in essence, be summarised as follows: Robust and proportionate governance is the baseline expectation for firms regarding risk management. While the PRA is undoubtedly focussed on growth, robust independent legal entity governance, plus effective management of conflicts of interest, remains an overall priority (for example, this is the case with respect to the new capital and ownership structures the PRA mentions for the life sector). Regarding the non-life sector, the PRA highlights its expectation that firms are able to effectively oversee delegated authority business (in addition to considering future exit arrangements).

In addition, the PRA's letter draws attention to certain upcoming initiatives or changes in its approach:

- First, the letter flags those areas where the PRA is seeking to be innovative, namely:

- i. The development of the new UK captive regime (consultation planned for 2026, with implementation to follow in 2027).
- ii. The reforms implemented to the insurance special purpose vehicles (ISPV) regime.
- iii. The PRA's November 2025 discussion paper DP2/25, "[Alternative Life Capital: Supporting innovation in the life insurance sector](#)." See our 5 December 2025 client alert "[The PRA's Discussion Paper on Alternative Life Capital: A New Dawn?](#)"

- Second, the PRA explains that it is transitioning to a two-year Periodic Summary Meeting (PSM) cycle for all firms which currently remain on an annual cycle, irrespective of the scale or complexity of their operations.

In relation to these points, the PRA has pointed to its secondary objective to facilitate UK competitiveness and growth. Similarly, the PRA has referred to accelerating time-lines for new firm authorisations and developing options that give small/medium insurers access to a dedicated point of contact on regulatory matters, including when looking to launch new products.

It is interesting to note that one particular theme is absent from the letter: a reflection on how the PRA's approach affects market behaviours and consequences. For example, in the past year, we have seen three UK annuity companies be sold to overseas buyers, which is a seismic change for the UK life market. Some would say that this is a consequence of the PRA's restrictions on Funded Re ("if you can't reinsure it, buy it") and this is surely a matter for self-examination — for example, it is worth considering whether there will be any UK-owned annuity companies left in five years' time. Likewise, the herding of UK life insurance reserves backing BPA liabilities into a confined range of matching adjustment assets — and whether that creates bubble pricing in particular types of assets — would also seem worthy of examination. We would also welcome root and branch reflection on whether the treatment of risk appetite level as if it were a solvency capital requirement — and whether that results in over-capitalisation and poor-value products — is desirable (*i.e.*, are we regulating to a 1-in-200 standard or in reality to a regulator-mandated level which is materially higher?).