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Financial Services Regulatory Outlook 2026

The Regulatory Remix

A collaborative effort across society as a whole is therefore required to improve our collective resilience against hybrid threats because, as the quote frequently attributed to Benjamin Franklin goes, "by failing to prepare, you are preparing to fail".

Anneli Tuominen,
ECB Supervisory Board Member[1]

Efforts to simplify regulation must [...] strike the right balance, ensuring that streamlining leads to a stronger, more cohesive framework, rather than introducing new gaps, inconsistencies or unintended burdens elsewhere.

Petra Hielkema,
EIOPA Chair[2]

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As we enter 2026, governments and regulators worldwide are recalibrating financial regulation and supervision in pursuit of their own objectives. This is no "big bang" liberalisation.[3] Policymakers are trying to reconcile three powerful, sometimes competing, forces: economic growth challenges, rapid innovation, and a difficult risk outlook. This outlook is increasingly characterised by hybrid risks that cut across financial, operational, technological and geopolitical domains.

Growth and productivity remain modest in many advanced economies, with inflation lower but still sticky in places. General-purpose technologies adopted by regulated institutions, chiefly Artificial Intelligence (AI) and blockchain, promise efficiency and growth but introduce new risks and vulnerabilities. A more volatile geopolitical and trading environment complicates cross-border finance and policymaking. The result is a regulated world in motion: deregulation in some places, simplification in others, new guardrails elsewhere, and divergent speeds and approaches to policymaking.

Boards and senior management will need to assess how these complex political, economic and regulatory forces reshape their strategies and priorities. A clear risk appetite should steer strategic choices such as investment, technology selection, and operating models in this unpredictable environment. The importance of subsidiary boards is also expected to grow, as diverging global rules, geopolitical considerations, and distinct market conditions elevate the value of decisions taken at local levels. Opportunities will undoubtedly emerge, yet identifying and capturing them may be harder than usual.

The great regulatory recalibration - within limits

A familiar question is back with new urgency: can regulation protect consumers and stability without hindering innovation and growth? National competitiveness is an explicit political aim across many jurisdictions and regulators themselves may often be drawn in to support it. In response, there will be targeted deregulation rather than any wholesale rollbacks. The emphasis is on simplification and "right-sizing", although with regional variations in pace and methods.

The UK's Financial Services Growth & Competitiveness Strategy seeks to "rewire the financial system to boost growth", including reforms to consumer redress and bank capital policy.[4 5] Simplification, some of which amounts to targeted deregulation, is a core EU objective for 2026, with the Digital and Sustainability "omnibus" packages designed to streamline rulebooks. A similar dynamic is clear in the EU's Anti-Money Laundering agenda. By establishing a EU-level supervisor and moving to a single rulebook, policymakers are seeking to simplify a fragmented system, shifting the emphasis - at

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least in theory - to more consistent, proportionate and effective outcomes. While some simplification initiatives may lead to regulatory relief, it will likely be slow and selective. Overall, areas such as digital assets, operational resilience, and AI will likely attract more, not less, oversight.

In the US, the pendulum has swung more visibly, if selectively, towards focused rulemaking and supervision. Where new rules emerge (e.g., for stablecoins under the GENIUS Act), the aim is legal clarity and an accommodating posture.[6] Some states such as New York and California continue progressing with new rules, notably on consumer protection and the intersection of innovation (including AI), even as federal authorities shift towards refining, recalibrating, or reversing existing rules.[7] Divergence also persists across sectors - insurance specifically remains under significant supervisory pressure while new regulatory agency heads across banking and capital markets regulators are laying out their priorities and are expected to continue doing so. Whatever the policy direction, supervisory remediation will remain a central feature and, in some cases, may clear regulatory hurdles to further growth through organic expansion or acquisitions.

Asia Pacific (AP) authorities are favouring tactical streamlining and targeted interventions to remove duplication of regulations, especially for smaller firms, while taking a measured approach to the regulation of emerging technologies to balance innovation and risks.

For firms, the effects will vary. Some changes will ease balance sheet constraints, freeing capital and managerial bandwidth for growth initiatives. Others may cause burdens for international firms as “simplification” of and varying local approaches to regulations will likely yield diverging compliance requirements and IT changes across markets.

Mobilising retail savings - promise and prudence

Governments want deeper domestic capital pools to fund innovation, defence, infrastructure, and better retirement outcomes. With limited fiscal headroom, there is growing emphasis on harnessing retail savings to drive these critical investments.

The EU is pulling multiple levers to achieve these objectives. In particular, the Savings and Investments Union (SIU), aims to channel retail investment into productive assets, including via tax-advantaged investment accounts, and harmonise capital markets across the bloc.[8] The Retail Investment Strategy, aligned with the SIU, aims to safeguard and empower retail investors.[9] The UK is redrawing the advice–guidance boundary to enable “Targeted Support” to launch in 2026.[10] US policymakers are exploring broader access to private assets in retirement plans. Across AP, similar moves are underway to incentivise household investments in capital markets: Japan is expanding the Nippon Individual Savings Account, its tax-exempt retail investment

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programme, and Hong Kong SAR's electronic Mandatory Provident Fund Platform is digitising pensions to cut fees and widen choice.

Yet, investment rhetoric is marching alongside rigorous consumer protection. In the UK, the Consumer Duty's fair-value tests and the motor-finance redress programme are reminders that distribution risk can quickly turn profits into significant costs.[11] The EU's retail package couples simpler investment journeys with tighter inducement and disclosure rules. Across AP, similar market-building and safeguarding measures are advancing in tandem, from anti-scam drives in Singapore and Hong Kong SAR to design-and-distribution obligations and trustee accountability in Australia. The US continues to leverage existing guardrails, such as fiduciary duties for pensions and investment managers, and established enforcement practices, including at the state level.

Globally, strategies that take advantage of retail inflows must be inseparable from product-governance discipline: clear propositions, fair value evidence, granular outcomes data, and swift issue resolution. The prize is larger capital pools. The price of admission is demonstrable trust.

Private credit – booming, but casting long shadows

As policymakers encourage savers to invest, including in private markets, the supervisory spotlight is shining more brightly on the sector. Private credit is now a global force, with global assets under management reaching ~$2.5trn in 2025.[12] In the US alone, the market has grown from ~$46bn in 2000 to ~$1trn in 2023.[13][14] In comparison, the AP market remains smaller, but has nevertheless increased more than six-fold over the last decade.[15] Europe's private credit market has also expanded significantly, reaching

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€0.43trn in 2024, up from €0.15trn in 2014.[16]

This explosive growth is prompting supervisors globally to demand greater visibility – on valuation, leverage, liquidity, and interconnectedness with the wider financial system – in this largely bilateral, opaque market. Andrew Bailey, Bank of England (BoE) Governor and Financial Stability Board Chair, recently noted that US corporate collapses carry worrying echoes of the Great Financial Crisis. He highlighted the resurgence of familiar, risky practices – tranching and complex loan warehousing – while the BoE Deputy Governor for Financial Stability also raised concerns over weak underwriting standards.[17] In the UK, the BoE has launched a system-wide exercise to map vulnerabilities.[18]

A focal point for regulators everywhere will be understanding the multi-faceted ties between private markets and banks, insurers, and pension funds. This includes scrutinising the reinsurance mechanisms that transfer long-dated liabilities into less transparent assets. The UK has set supervisory expectations to limit links between funded reinsurers investing in private credit and UK insurers.[19] Bermuda now requires prior approval for long-term block deals and stronger liquidity guardrails.

AP authorities are signalling a similar shift in approach. In Australia, supervisors are pressing boards of superannuation funds to strengthen valuation governance and stress-testing practices.

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The Australian Securities and Investments Commission's (ASIC) 2025 review of private credit markets flagged opaque fee structures, conflicts, and confusing terminology. New guidance and a roadmap of Australia's approach to implementing the results of this review was released by ASIC in November 2025.[20]

The US regulatory stance on private credit has shifted significantly. The current administration, diverging from its predecessor's focus on enhanced data collection, largely attributes the sector's growth to regulatory constraints on traditional banking. While acknowledging that the sector warrants monitoring, new federal regulations remain improbable, absent a systemic crisis.[21] This contrasts with intensifying state-level scrutiny of life insurers, where the National Association of Insurance Commissioners is actively pushing for greater transparency, disclosure, and weighing the need for enhanced regulatory capital.

Global supervisory scrutiny of private markets, particularly private credit, will likely intensify through 2026. This will specifically target banks, insurers, and pension funds active in the sector, demanding robust evidence of their risk identification, management, and data aggregation capabilities. Yet, firm-level oversight alone risks obscuring system-wide vulnerabilities, making system-wide stress tests crucial.

The tower of Basel?

In our view, the fracturing global consensus is increasingly evident in the evolution of bank capital standards. The Basel framework, once the capstone of post-crisis cooperation, is firmly in the political crosshairs. The US has delayed its "Endgame" implementation, with a re-proposal expected in H1 2026 alongside separate proposals for further changes to global systemically important bank surcharges, stress tests, and enhanced supervisory leverage ratios.[22] The ripple effects are global.

The EU and UK have already deferred implementing the Fundamental Review of the Trading Book (FRTB) until January 2027. The UK is now consulting on a further delay to 2028 for implementation of the FRTB's Internal Models Approach, while the EU may adopt relief measures for FRTB which could significantly limit any increases in market risk capital requirements until January 2030.[23, 24]

Basel implementation elsewhere also varies. Switzerland and Canada have fully adopted the standards. In contrast, the AP region remains fragmented: China (Mainland) ("China"), Japan, Hong Kong SAR, and Singapore have fully implemented, while Australia remains a partial adopter, having delayed FRTB and Credit Valuation Adjustment implementation. Elsewhere, progress in other emerging economies is slower.

The substance of what will emerge in the US is as uncertain as its timing. If US rules are re-scaled, how far might they diverge from the agreed Basel standards? Should the US ultimately decline to implement FRTB, jurisdictions yet to implement will likely pause, while those that have implemented will face difficult decisions about how to proceed. For bank boards, this complicates capital planning and strategic

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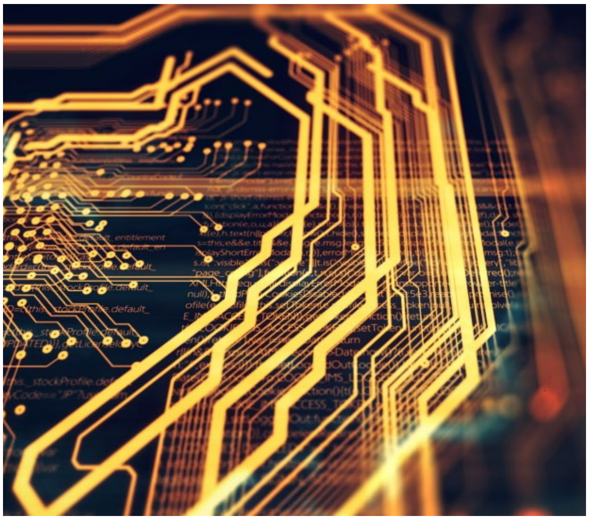
capital allocation. The practical answer is scenario-based capital planning across multiple regulatory paths, plus strategic optionality based on business mix, footprint, and market participation.

More fundamentally, delayed and inconsistent implementation places the original purpose of the Basel framework (i.e. strengthening global financial stability through robust, risk-sensitive capital requirements) under strain. Fragmentation also risks introducing new systemic vulnerabilities and creating openings for regulatory arbitrage.

It also raises broader questions about how governments, central banks, and regulators might react to future global shocks, from private credit stress to major operational incidents. While a globally coordinated response, as seen during the Global Financial Crisis, remains the central case, it should not be taken for granted. Firms in their scenario testing may increasingly need to consider the implication of a shock resulting in disjointed, potentially conflicting, national interventions. Regulators may be contemplating similar scenarios and, consequently, may press local or regional entities to operate more autonomously, thereby creating redundancies across areas such as funding, liquidity, and IT systems.

Digital assets – from edges to mainstream

Digital assets and blockchain technologies are transforming both the investment and payments landscape. On the asset side, we see continued efforts to harness these innovations to streamline securities issuance, trading, and settlement, enabling fractional investment and thereby improving access for retail investors. Yet this year, we expect the main step change to be on the payment side, with stablecoins and tokenised deposits emerging as industry priorities, driven by



the promise of faster, cheaper, and programmable payments. Stablecoin issuance has surged and real-world use, though nascent, is growing. Strategic focus and legislative clarity in the US are catalysing a USD-dominated global market. The UK is accelerating in response, while Japan, Korea, Hong Kong SAR, Singapore and EU regimes are already live, with local currency coins emerging across AP and Europe.

Tokenised deposits are advancing in parallel within existing banking rules, poised to coexist with stablecoins. Anchored on bank balance sheets, they offer lower counterparty and reputational risks - suited to corporates moving cash across subsidiaries or settling wholesale tokenised-asset transactions. Stablecoins, leveraging public blockchains, suit cross-border retail and business-to-business flows. The strategic prize is interoperability: seamless transition between the two could amplify adoption.

Two obstacles remain: domestic stablecoin regimes lack full clarity on their treatment of foreign-issued stablecoins or cross-border flows, and tokenised deposits mostly run on institution-specific rails, limiting scalability. Bank strategies could diverge. Universal banks may need capabilities in both instruments; corporate banks

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may favour tokenised deposits; retail and global payments players may prioritise stablecoins.

Retail central bank digital currencies, however, show more measured and mixed momentum, though progress in key jurisdictions (e.g., China and India) could shift regional or global dynamics. Monitoring and analysing their interplay with stablecoins and tokenised deposits is crucial to inform strategic responses.

Artificial intelligence - you can go fast, if you have the right guardrails

AI adoption shows no sign of slowing, although scaling and demonstrating clear returns remain key challenges. Policymakers, keen to foster innovation and growth, are expanding sandboxes and industry collaborations to support safe AI use. However, as adoption grows, 2026 will likely bring firmer supervisory scrutiny. As AI becomes more deeply embedded in core business processes and decision-making, supervisors will look for rigorous testing, comprehensive documentation, measurable outcomes, and board-level accountability. The AI agenda connects directly to operational resilience and the growing reliance on third-party providers, themes explored further below.

The EU AI Act will likely see its compliance deadline for high-risk systems extended by up to 16 months from its original August 2026 date.[25][26] This delay, necessary to finalise technical standards and provide regulatory clarity, offers firms breathing space, but no room for complacency. Financial supervisors in the EU and UK are also tightening scrutiny under existing and technology-neutral prudential, operational resilience, conduct, and accountability frameworks. A critical gap remains: systemic and concentration risks stemming from foundation AI model providers are not yet fully captured by existing regimes. For now, firms should calibrate AI adoption strategies, set a clear risk appetite for exposure to these risks, and build governance that supports responsible experimentation and scaling within their risk tolerances.

In the US, AI regulations are decentralised with authorities at both the state and federal level issuing rules and frameworks for the technology. Federal initiatives, such as the proposed Unleashing AI Innovation in Financial Services Act, aim to spur adoption, but must contend with growing supervisory demands for governance and oversight.[27] States are moving too: Colorado's law for high-risk AI systems takes effect in 2026, while New York's Department of Financial Services has already issued guidance on third-party contractual controls, with further banking-specific directives anticipated.[28] Ultimately regulators across the financial sectors at the federal and state levels will continue to diverge in the short-term.

AP is equally diverse. Some jurisdictions are legislating, others are adapting privacy and cybersecurity frameworks or issuing AI guidance, reflecting different national security and innovation priorities. South Korea, for instance, is moving towards mandatory requirements for transparency, oversight, and risk-based obligations. Hong Kong SAR and Singapore favour voluntary guidance. Singapore's Monetary Authority is promoting good practices and consolidating AI use cases, while simultaneously

> *The core principle is that new [AI] capabilities, including Generative or agentic AI, must not override sound risk management.*

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signalling a move towards stricter supervisory expectations.

Despite regional differences, regulators globally share a common goal: to foster innovation without diluting risk-based oversight. The core principle is that new capabilities, including Generative or agentic AI, must not override sound risk management. Firms can adopt AI quickly, provided they invest in essential capabilities and safeguards: a clear risk appetite, strong internal controls, robust risk management, and, crucially, accountability for outcomes.

Operational resilience – efficiency meets reality

Operational resilience, including cybersecurity, is a board-level imperative globally. The rapid adoption of innovative technologies – such as AI, and looking further ahead, quantum computing - is amplifying the urgency. One particular concern for regulators worldwide is the growing concentration risks in critical digital infrastructure. These concerns also link to geopolitical shifts, prompting some countries to reduce reliance on cross-border AI, data, and technology stacks. This aims to strengthen supply chain resilience and lessen reliance on others. However, these efforts could also complicate global firms' efforts to build and maintain integrated resilience plans and scale and deploy AI systems across markets.

> *These [operational resilience] concerns also link to geopolitical shifts, prompting some countries to reduce reliance on cross-border AI, data, and technology stacks.*

UK, EU, and Australian regimes were fully embedded in 2025, with stricter supervision looming. Hong Kong SAR banks face a May 2026 deadline. In the US, federal banking agencies have long supervised third-party service providers, including technology providers, and US state authorities (e.g., New York) are also intensifying third-party risk scrutiny. Oversight of critical third parties in the UK (subject to their designation) and EU also commences in 2026.

Despite varying specificity from prescriptive EU rules to principles-led but exacting UK/Australian demands, frameworks converge on core capabilities: mapping services and dependencies, scenario testing, incident management and third-party governance. For cross-border groups, various regulatory demands often require replicating evidence, reporting, and operational playbooks, even where underlying capabilities are shared. Coupled with an ever-evolving threat landscape, operational resilience becomes a continuous endeavour.

Boards face a dilemma in vendor selection: major players offer superior tooling and economies of scale but concentrate risk. Diversification enhances failovers but raises complexity and costs. The key is to weigh disruption costs – financial, reputational, regulatory fines – against mitigation investments, treating resilience as a strategic capability.

Firms should ensure impact tolerances genuinely reflect customer expectations, validated through operational exercises to ensure issues are resolved or backed by remediation plans. Effective contingencies are essential, including the ability to access data when needed (e.g. through secure copies of information in other locations) and handle demand spikes. Multi-cloud strategies should provide genuine portability and failover capabilities. Crucially, aligning with supervisory expectations and engaging authorities early can help minimise potential costly setbacks later.

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Final considerations

The regulatory landscape is undergoing a complex recalibration as authorities pursue growth and innovation amidst a challenging risk and geopolitical outlook. This profound shift involves deregulation in some areas and streamlined regulation in others. The result is a more fragmented regulatory and supervisory environment as authorities pursue their own objectives and global coordination recedes.

In parallel, novel risks are emerging or intensifying, from Generative and agentic AI and digital assets to operational resilience and geopolitical challenges. While new regulations aim to address some areas, others will likely see increased supervisory focus. This confluence of global regulatory divergence, rapidly evolving risks, and shifting supervisory expectations will make the landscape more complex for firms to navigate.

Still, boards and senior management should also consider the opportunities these shifts create, capitalising on the growth and innovation governments aim to stimulate. As firms respond, the growing importance of subsidiary boards will require governance frameworks that ensure local decisions align with group-wide aims, even as local regulatory and market conditions vary.

Against this backdrop, risk appetite takes an ever more important guiding role. Firms need to have a full appreciation of the scale, complexity, and trajectory of future risks, and clarity on the boundaries within which they intend to compete, innovate, and invest. Proactively defined risk boundaries and tolerances should guide key decisions, including on investment, pricing, technology, partnerships, product design, and market entry or exit, rather than merely controlling outcomes retrospectively.

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Cross-sector perspectives

Digital assets and payments

Increasing regulatory clarity sets the stage for strategic choices

The combination of market dynamics and increasing regulatory clarity will enable firms to shape their role in the future payments landscape. However, this momentum is challenged by a demanding reality: a wave of payments compliance deadlines. This will usher in a more costly operating environment, potentially constraining firms' capacity to invest in new forms of money and payments.

Stablecoins and tokenised deposits: what next for banks?

Stablecoins and tokenised deposits have moved to the forefront of policy debates and industry innovation. Their appeal lies in making payments faster, cheaper and programmable. With increasing regulatory clarity, banks face strategic choices in 2026: when and how to develop and scale their capabilities in this space. Yet, hurdles and open questions persist, demanding flexibility to enable firms to adapt to future innovation and regulatory shifts.

The stablecoins[29] market is surging. Globally, their average supply reached $273 billion by December 2025, a 47% increase from December 2024.[30] Increasing US regulatory clarity is an important tailwind but is not the only show in town. The EU's stablecoins regime – part of the Markets in Cryptoassets Regulation (MiCA) – took effect in August 2024. While the UK regime has been slower to take shape, proposals are gradually emerging, with finalisation expected by end-2026.

Tokenised deposits[31] are gaining traction in parallel. These operate under existing banking regulations. By end-2024, some offerings had gone live, with others in pre-launch and pilot phases,[32] followed by a wave of industry announcements throughout 2025.

Both stablecoins and tokenised deposits will co-exist. Tokenised deposits, backed by bank balance sheets, suit corporates moving liquidity across subsidiaries and time zones, while receiving interest payments and managing regulatory, reputational and audit risks. They also support settlement of tokenised securities. Stablecoins on public blockchains, however, suit scalable retail and business-to-business (B2B) cross-border flows.

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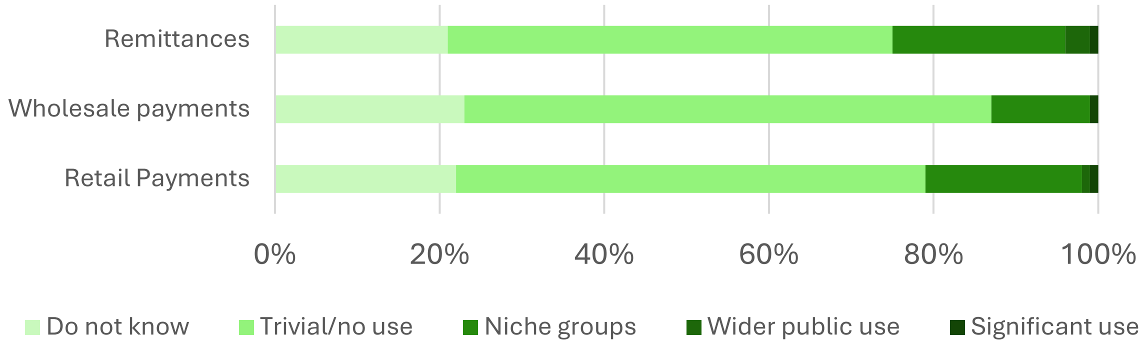
Several strategic options are emerging for banks to explore, including:

- Provide banking services to stablecoin issuers: provide custody services for stablecoin reserve assets and adjacent services like brokerage and foreign exchange – a logical entry point for many.
- Integrate third-party stablecoins: facilitate stablecoin payments through offering stablecoin wallets and payment rails, supporting stablecoins issued by other firms.
- Issue a stablecoin: either independently, through white-label partnerships, or via an industry consortium.
- Issue tokenised deposits.

Despite the momentum, several obstacles and open questions remain. Maintaining agility to respond to market and regulatory developments will be crucial.

First, we expect limited uptake of stablecoins in UK and EU retail and wholesale payments this year by regulated financial services firms. Stablecoins are currently used primarily for digital assets trading, with nascent, albeit growing, use in cross-border payments and remittances (Figure 1) – and B2B payments.[33] Most current tokenised deposits use cases are confined to closed, institution-specific ecosystems – limiting interoperability. Banks should not anticipate an immediate return on investment in 2026. Furthermore, the details of emerging regulatory approaches will influence the pace at which payments use cases evolve for both instruments.

Figure 1: Use of stablecoins in cross-border payments (end-2024)



Source: BIS[34]

Second, stablecoin-enabled commercial models, which often rely on interest income generated from the backing assets, will face challenges from declining interest rates. This will increasingly force a shift towards payment fees to generate revenue, rather than relying on backing asset yields.

Third, banks considering issuing a stablecoin face a legal entity conundrum. The UK's Prudential Regulation Authority mandates that banks must issue stablecoins from a separate legal entity – like the US regime.[35] Establishing, and in some cases duplicating, governance, risk management systems, capital and liquidity provisions, raises questions about commercial viability. In contrast, EU MiCA simplifies stablecoin issuance for banks, allowing them to do so via a simpler regulatory notification. This raises important strategic choices for stablecoin and broader digital asset strategies, from evaluating group

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legal entity structures to location strategy and launch timing. Banks will need to keep these decisions under review, including as regulators globally clarify their domestic treatment of foreign-issued stablecoins and stablecoins in cross-border flows.

Finally, banks face the challenge of balancing scale with systemic regulation under the UK's framework, which divides stablecoins into two tiers. Sterling-denominated stablecoins deemed systemic and used widely for retail and corporate payments in the future will be regulated jointly by the Bank of England (BoE) and the Financial Conduct Authority (FCA). Non-systemic ones are regulated solely by the FCA.

Stricter BoE requirements could challenge growth ambitions. For instance, issuers must hold at least 40% of the backing assets as unremunerated deposits at the BoE, forcing more reliance on payment fees to generate revenue. The BoE also proposes per-coin holding limits of £20,000 for individuals and £10 million for businesses.[36] While these limits may be eased or removed later, they will pose challenges if the stablecoin market expands rapidly. Further policy development, planned for H1 2026, will be crucial in clarifying the details, particularly the transition from FCA to BoE oversight when a stablecoin becomes systemic. Further policy development, planned for H1 2026, will be crucial in clarifying the details, particularly the transition from FCA to BoE oversight when a stablecoin becomes systemic.

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Ultimately, a bank's strategic response will hinge on its business model and risk appetite. Globally active universal banks may need capabilities in both instruments. Corporate banks may focus on tokenised deposits, while retail banks may prioritise stablecoins. Some banks may join national/regional consortia to pool resources and scale stablecoin ventures, e.g. ten European banks plan to launch a euro-pegged stablecoin in 2026.[37] Building a stablecoin offering could also appeal to banks aiming to give clients wider access to digital assets markets (e.g., trading).

These choices unfold amid an ongoing debate about the launch (if any) of UK/EU central bank digital currencies (CBDCs), both retail and wholesale, which will persist beyond 2026. In the meantime, stablecoins and tokenised deposits are gaining momentum as more immediate payment solutions. As more details on CBDCs emerge, analysing their potential interaction with stablecoins and tokenised deposits will be key to shaping strategic responses.

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Looming payments compliance deadlines

However, banks' stablecoins and tokenised deposits ambitions face a stark reality. Looming payments regulatory deadlines demand mandatory compliance investments, absorbing resources, and potentially reducing the capacity needed for strategic, yet optional, ventures into these new forms of money and payments.

The EU and UK are implementing new regulations to strengthen consumer protection, choice, and resilience. In the EU, after some delays, lawmakers have reached a political agreement on the Payment Services Directive 3 and Payment Services Regulation (hereafter referred to as the "PSD3 package"). The final legal texts are expected by mid-2026, with compliance deadlines anticipated in 2028 (to be confirmed in due course).

Meanwhile, the UK is expected to provide much-needed clarity on the sequencing and prioritisation of payments regulatory initiatives early this year.[38] This includes more clarity on next steps for open banking account-to-account payments and modernising the UK's payments and e-money framework.

While framed as a targeted review, the EU PSD3 package is poised to have a significant operational and financial impact on banks. For instance, the likely introduction of mandatory refunds for impersonation fraud will create a substantial financial exposure. In the UK, firms reimbursed £112 million to victims within nine months of similar rules taking effect.[39]

EU proposals to make online platforms liable for compensating banks that refund defrauded customers — if platforms are informed of fraudulent content and fail to remove it — could offer some relief.[40] However, the practicalities remain unclear until the final legal text is published. Regardless, strategic investments in Artificial Intelligence and advanced biometrics may offer greater ability to monitor transactions, spot anomalies and assess risk in real time, and mitigate the impact of refund costs.

Elsewhere, changes aimed at achieving open banking's full potential will demand new technological investments. This includes developing dedicated interfaces for third-party providers to access customer open banking data, meeting strict functionality and performance standards, and building dashboards for customers to manage their open banking data permissions.

PSD2 implementation experience suggests that the PSD3 package will divert resources away from the development of new payments offerings towards compliance efforts. 2026 is crucial for planning and future-proofing dependent programmes. Banks should assess resource needs, secure executive buy-in

> *Looming payments regulatory deadlines demand mandatory compliance investments, absorbing resources, and potentially reducing the capacity needed for strategic, yet optional, ventures into these new forms of money and payments [stablecoins and tokenised deposits].*

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and funding and integrate PSD3 package changes into broader transformation strategies.

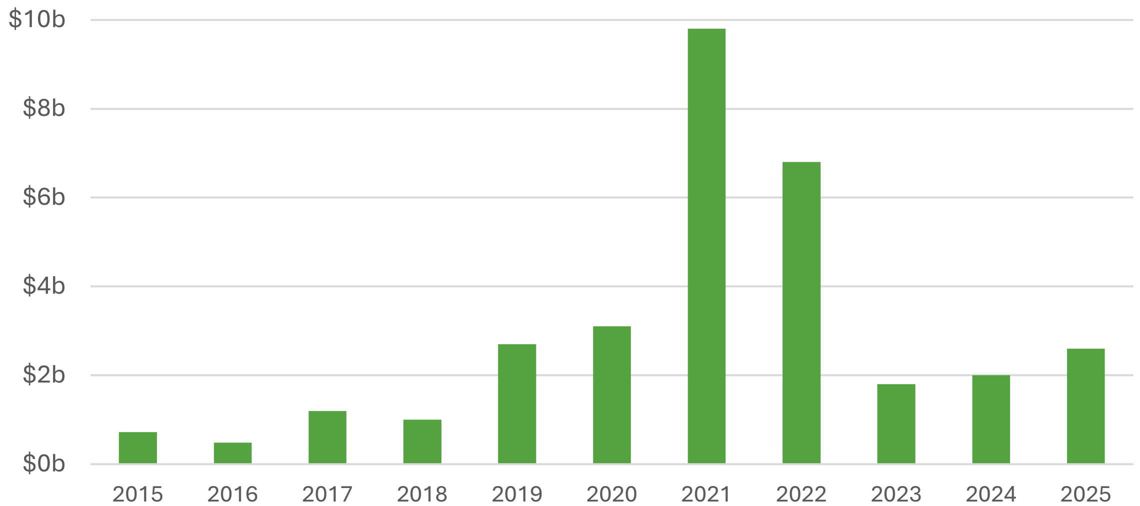
Upcoming compliance deadlines create a particular challenge for non-bank payment and e-money firms. Several factors paint a gloomy picture: funding conditions remain tight (Figure 2) and interest income on safeguarded funds will fall as interest rates decline. For firms facing persistent profitability challenges, these pressures are likely to intensify further.

While some EU regulatory changes may boost non-banks' competitiveness, e.g. facilitating improved access to customers' open banking data, many will increase operating costs. Fraud refunds are a prime example. In addition, EU non-banks will likely need to submit new information to regulators, including wind-down and safeguarding arrangements, to demonstrate compliance with the PSD3 package.

Against this backdrop, non-banks should reassess their strategic positioning in 2026, evaluating how the regulatory developments affect their viability. Larger players may explore banking licences to expand their product and service offerings and unlock new revenue streams. However, firms will need to balance this approach against the costs and lengthy process involved, which are likely to deter smaller players.

Non-banks may also diversify their offerings to drive revenue growth. However, buy-now-pay-later (BNPL)[41] will become a more challenging option as these services face increased regulatory requirements. FCA regulation commences on 15 July 2026, including introducing creditworthiness checks for all transactions. Increased costs, coupled with potentially reduced transaction volumes – as some previously viable agreements may no longer be profitable – could trigger BNPL market consolidation.

Figure 2: Payments venture capital funding remains muted ($ billion)



Source: Dealroom[42]

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Beyond payments: tokenisation and unbacked digital assets

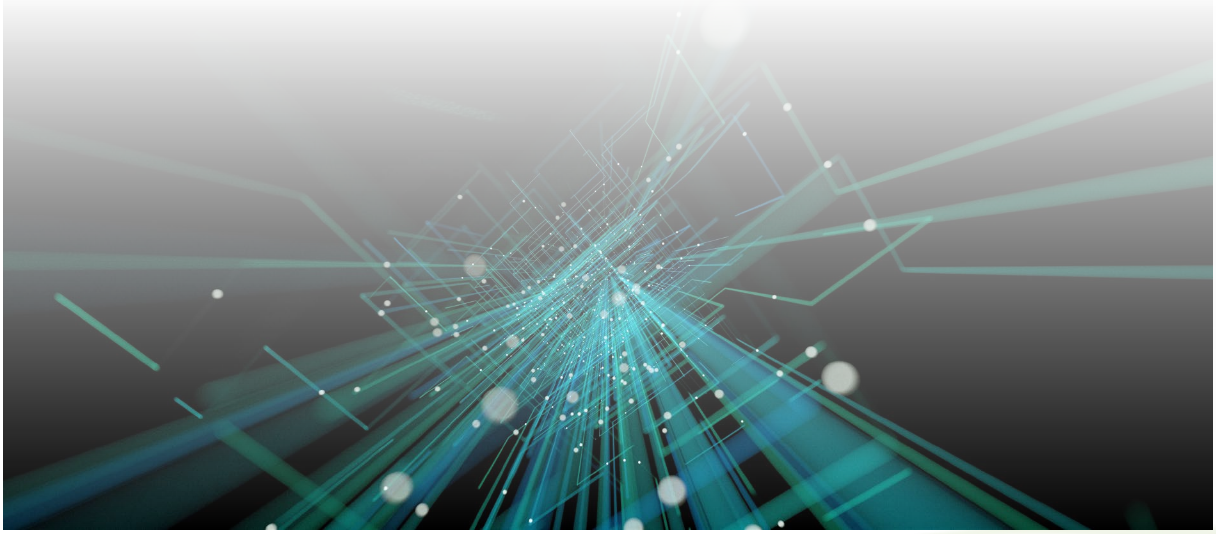
As the adoption of blockchain technologies for the cash leg of transactions gains traction, the asset leg remains important too. Securities and fund tokenisation will remain central to digital asset strategies for banks and investment managers, though we expect these markets to remain nascent in 2026. For example, notwithstanding growing industry interest and increasing issuances, tokenised money market funds (MMFs) are still in the early stages of their development, representing around 0.1% of the traditional MMF market.[43]

Regulatory pilots and sandboxes alone will not serve as silver bullets for scaling tokenised markets. For instance, as of September 2025, the EU Distributed Ledger Technology (DLT) Pilot has facilitated two debt securities issuances, compared to 51 debt securities issued by EU entities since 2023.[44] Scaling demands a concerted global effort between politicians, policymakers, and the private sector to develop infrastructure and standards – beyond the capabilities of individual firms.

Furthermore, market momentum and a maturing regulatory framework will prompt some firms to reconsider unbacked digital assets offerings (e.g. Bitcoin). Custody is a natural entry point, enabling a broader suite of services (e.g. brokerage). In the EU, existing licences give incumbents a competitive edge. Banks can provide custody of unbacked digital assets via a simpler regulatory notification under MiCA. In the UK, firms lack sufficient clarity to press the “go” button yet, with final rules only expected later this year.

Final thoughts

Increasing regulatory clarity will unlock opportunities to launch new payments and digital assets offerings. However, uncertainties regarding market adoption and commercial models will persist, and mandatory compliance investments may constrain capacity to innovate.



AI and data

Reality bites

The year ahead will test how well financial services (FS) firms can balance ambition with robust guardrails in their use of Artificial Intelligence (AI). Our latest survey shows that appetite for AI remains strong: 94% of firms plan to increase investment in the next 12 months, with 39% expecting a significant rise.[45]

Boards rightly see AI as a potent force for transformation. However, the shift from experimentation to scaling AI use cases into full production, particularly in an outcome-based regulatory environment, remains a challenge. Establishing effective AI governance and staying within risk appetite, especially for more complex systems such as Generative AI, is a particular hurdle. Nearly a third of respondents cite managing AI risks (29%) and meeting regulatory obligations (28%) as the main obstacles to realising returns.

These pressures will intensify in in 2026, as AI moves into more critical processes and complex applications, including Agentic AI. In response, FS supervisors are looking to boards and senior managers to understand the risks and ensure that they are comfortable with the trade-offs between risks and rewards inherent in AI adoption.

Regulating AI – where are we?

The international regulatory environment for AI remains a mix of well-established and still-evolving frameworks. International industry standards, distinct from regulation, also play a key role in guiding good practices in governance and risk management.

On AI-specific rules, the UK and the EU are taking different paths. The UK has no dedicated AI legislation for FS and none is expected. In the EU, implementation of the AI Act remains in flux, with proposals under negotiations to delay compliance deadlines for high-risk AI systems. *[See the Spotlight for further details]*

Spotlight: EU AI Act implementation in flux

The EU AI Act became law in 2024, but its requirements apply in stages. The AI Act uses a risk-tiered approach to regulate AI. Prohibitions on AI systems posing unacceptable risks have applied since February 2025. However, the timeline for the application of requirements for 'high-risk' systems remains uncertain, reflecting the ongoing debate about their impact on innovation and delays in the finalisation of technical standards required for high-risk AI implementation.

In late 2025, the Commission acknowledged that the high-risk framework would not be ready by its original August 2026 start date. This led the Commission to propose an AI Digital Omnibus, under which EU institutions are currently negotiating legislative changes to the AI Act. These changes could extend 'high-risk' implementation deadlines by up to 16 months, to a backstop compliance date of 2 December 2027. However, negotiations between the Commission, Parliament, and Council are likely to be protracted.

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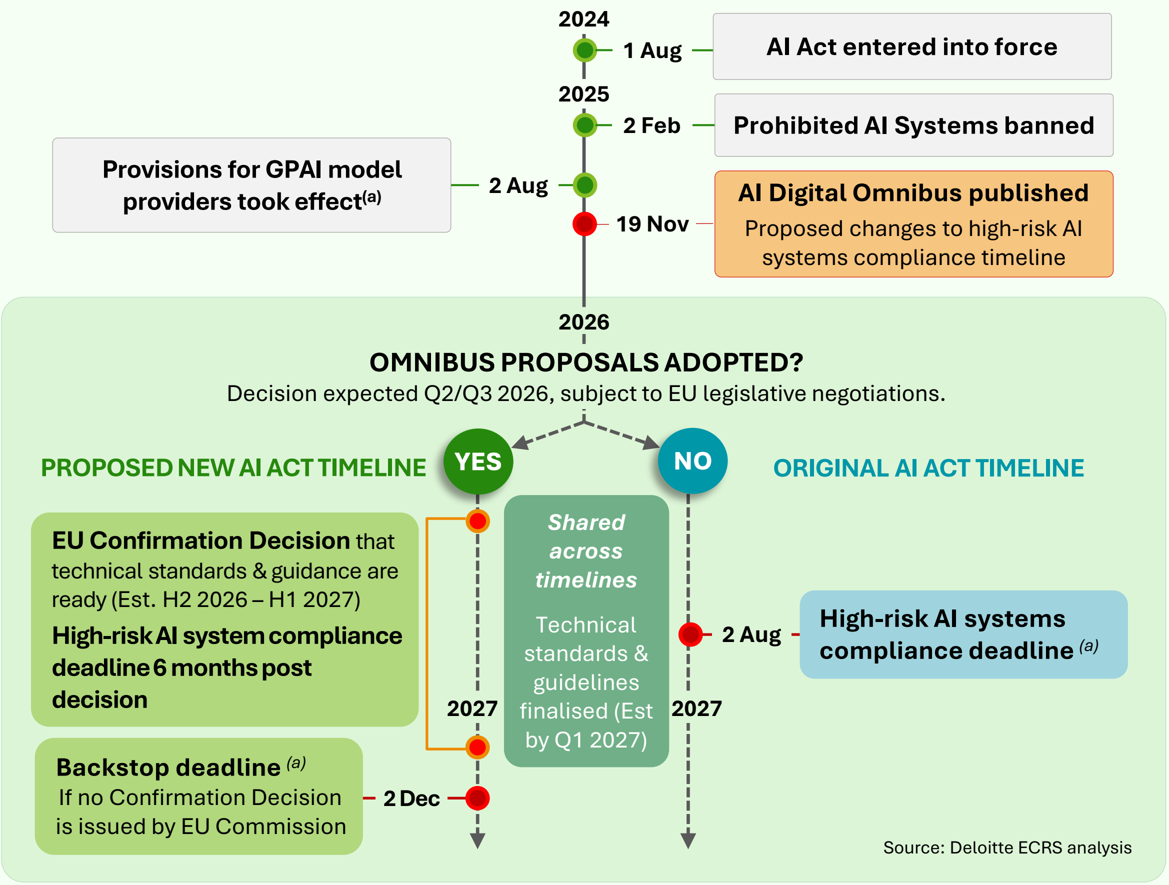
Spotlight: EU AI Act implementation in flux (continued)

If the AI Digital Omnibus proposals are ultimately adopted, high-risk obligations will apply six months after the Commission confirms (expected by H2 2027 at the latest) that the necessary standards and guidance are in place. If no such confirmation is issued, the aforementioned backstop compliance deadline of 2 December 2027 would apply. If the proposals are not adopted, the original AI Act timeline of 2 August 2026 will stand (see Figure 1).

Figure 1: AI Act implementation timeline - original vs. AI Digital Omnibus proposal



(a) Compliance timelines differ for legacy GPAI models & high-risk AI systems, and Annex I high-risk AI systems.

Assuming the Omnibus proposals are adopted, high-risk AI systems used in FS – including credit scoring, health and life insurance risk assessment and pricing, and employment-related systems - will likely need to comply with the AI Act at some point between Q1 2027 and the end of 2027. This extension is no reason to down tools. Over the coming year, we expect a multitude of technical standards, guidance and supervisory clarifications to be issued, leaving limited time for implementation. Firms that wait for complete clarity may find themselves short of time.

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Yet AI-specific regulation is only a small part of the story. In both jurisdictions, supervisors will continue to rely mainly on the existing full suite of technology-neutral FS frameworks and where personal data is used, data protection rules. This means that a number of AI use cases in FS – including credit risk models for capital calculations, transaction monitoring, trading algorithms and financial advice – will be assessed primarily through prudential and model risk management standards, conduct requirements, operational resilience and, if relevant, EU and UK General Data Protection Regulation (GDPR). Once in force, the AI Act will sit alongside these regimes in the EU, adding further requirements only for those AI systems that fall within its high-risk scope.

With this context set, the key question becomes: what do supervisors expect of firms now?

AI governance, accountability and outcomes

Effective AI governance and accountability will determine the pace and scale of AI adoption in FS. Supervisors in both the EU and the UK are consistent on one point: AI is a technological tool, and firms remain responsible for using it safely and in compliance with their regulatory obligations.

> “As firms increasingly consider use of AI in higher impact areas of their businesses such as credit risk assessment, capital management and algorithmic trading, we should expect a stronger, more rigorous degree of oversight and challenge by their management and Boards – in particular given AI’s autonomy, dynamism and lack of explainability.”

Sarah Breeden, Bank of England, Deputy Governor, Financial Stability[46]

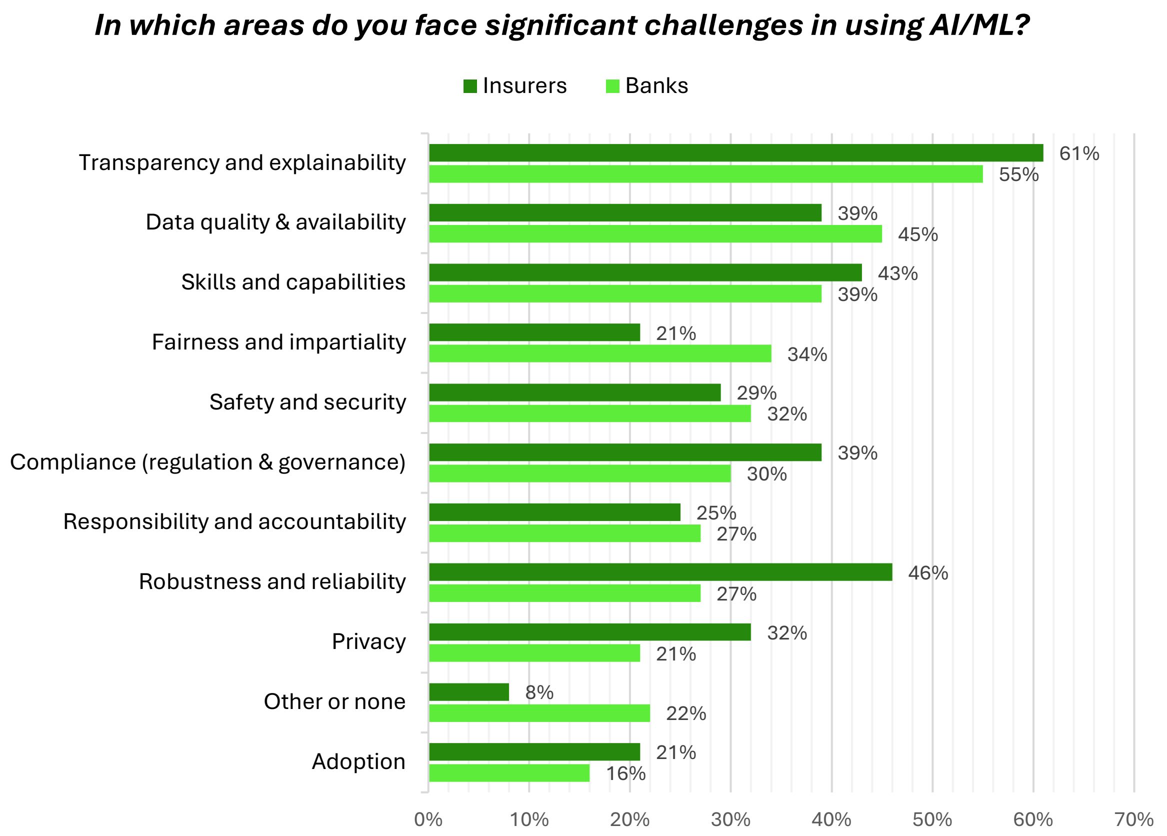
Supervisors will not conduct a line-by-line review of the source code of AI models. Instead, they will assess whether firms can demonstrate that their AI governance and controls ensure decision-makers understand the risks of their models, can explain and manage uncertainty in their outputs, and can evidence reliable, fair and consistent outcomes. While regulators actively support responsible innovation, as evidenced by the UK Financial Conduct Authority (FCA)’s ‘Supercharged Sandbox’ and ‘Live Testing’ programmes, and the EU’s regulatory sandboxes, a tech-positive stance does not mean lighter scrutiny.

AI and data

As AI becomes embedded in core activities and infrastructure, supervisory attention to accountability and effective oversight will intensify. In the UK, the Senior Managers & Certification Regime will be leveraged to review accountability. In the EU, the Capital Requirements Directive 6 moves banking closer to the UK model including through stronger fit-and-proper standards, clearer individual responsibilities, and wider supervisory powers over board members and senior managers. Across sectors, the European Supervisory Authorities (ESAs) have reinforced the need for clear, transparent accountability arrangements.

This raises expectations for boards and senior executives. They will need a clear, actionable risk appetite for AI, setting boundaries on where it can be used, acceptable levels of autonomy, and how outcomes are monitored and tested. Effective oversight depends on knowing where AI is deployed, the materiality of each use case, and how performance, incidents and limitations are reported. Boards will need reliable management information on AI performance and risks, and the ability to challenge assumptions, test management confidence, and ensure that AI remains within risk tolerances. They must also be confident that executives can act decisively when issues arise, with clear escalation routes, defined responsibilities, robust controls, and credible plans for pausing AI systems if necessary.

Figure 2: Significant challenges of using AI/Machine Learning (ML) models



Source: Deloitte 2025 EMEA Model Risk Management Survey[47]

AI and data

These considerations are most acute in more complex systems such as Generative AI. Validation remains difficult, explainability is limited and outputs can vary by prompt, context or model release. This is attracting increased supervisory scrutiny.[48] As a result, many firms now recognise that for high-stakes use cases - such as credit decisions, pricing or fraud detection - targeted statistical models or specialised AI tools may be more effective and better aligned with their risk appetite.

Responsibility for AI governance across FS remains uneven, with some exceptions. Oversight is often driven by first line functions or led by Chief Data Officers or Chief Information Officers, whose focus naturally leans towards technical performance. This can mean regulatory and risk considerations receive less attention than they should. More effective models distribute governance across technology, risk and compliance, ensuring a balanced view of performance, safety and regulatory obligations. While accountability may sit in different parts of the organisation depending on each firm's structure, those accountable should ensure that AI risks are managed in line with regulatory expectations and agreed risk tolerances.

As AI scales, many firms will also need to move beyond pilot-stage, often division-level, oversight to a more standardised, and for some material AI use cases centralised, governance. This transition requires visible senior leadership support, with boards, risk committees and executives setting the right tone and practices for how AI risk is understood and managed.

In 2026, two supervisory priorities will become even more prominent: data governance and operational resilience.

Data quality and governance: the foundation that matters

Data governance is fundamental to effective AI deployment. High-quality, well-managed data underpins transparency, model validation and explainability, fairness and accountable oversight. It also supports cybersecurity, operational resilience and privacy protection.

Regulators across the EU and UK converge on this view. The ESAs have positioned data governance as a central pillar of AI risk management.[49 50] In the UK, both the Prudential Regulation Authority and FCA have similarly elevated data governance as a priority, with the FCA linking ethical concerns over personal data use and algorithmic bias to the delivery of good consumer outcomes under the Consumer Duty.[51 52]

Yet for many firms, data governance remains a persistent challenge. Legacy systems, past acquisitions and fragmented architectures have left data inconsistent, low-quality, and siloed. This makes it harder to train and test AI models effectively, monitor AI-amplified risks or explain behaviour to supervisors, customers or boards.

The EU AI Act will add further expectations for high-risk systems. Even if compliance deadlines were to slip to 2027, firms should use the time to strengthen data foundations. This includes documenting data provenance, demonstrating that training, validation and testing data are relevant, representative and as free of error or distortion as possible, explaining how bias is identified and mitigated, and ensuring personal data use is compliant with EU GDPR. However, EU GDPR enforcement varies across Member States, with some jurisdictions applying markedly stricter interpretations than others. Firms therefore must choose between building to the highest bar or tailoring by market.

AI and data

Although the AI Act data requirements apply only to high-risk systems, they are likely to become a wider benchmark. EU FS supervisors, who will oversee AI Act high-risk AI use cases in FS, are expected to use them to test data governance across all material use cases. In the UK, they can serve as a guide for meeting both UK GDPR requirements and the outcome-based expectations of FS supervisors.

Operational Resilience and Third-Party Risk: the concentration challenge

Operational resilience is now central to AI supervision, driven by the FS industry's reliance on a narrow set of technology providers for the AI stack. The Bank of England estimates the top three vendors supply about 75% of cloud, 45% of models, and 30% of data services to UK financial firms.[53] This concentration creates significant systemic risk, as a single supplier failure or cyber-attack could cascade across the financial system.

In this setting, resilience frameworks are the first - and for now the most robust - line of defence against risks arising from a concentrated AI supply chain.

From 2026, supervision will tighten on two fronts. The first involves increasing firm-level scrutiny. With EU's Digital Operational Resilience Act (DORA) and the UK's operational resilience regime now embedded, supervisors will test resilience under these new rules as AI scales. Expect close attention to resilience testing, auditability, transparency, and credible business continuity and exit plans, treating concentration across cloud, compute, and foundation models as a core risk. Supervisors will demand clear mapping of where AI systems are used to deliver important business services, with proof that failovers work in practice.

The second track is direct oversight of critical vendors. Under DORA, the EU has already designated the first batch of critical Information and Communication Technology providers – including some of the biggest cloud and AI service providers – over which supervisory teams will have broad inspection powers.

In the UK, once His Majesty's Treasury designates a third party as critical (with initial designations expected in 2026), regulators can impose rules directly on the vendor. These include obligations to provide information, undergo regulatory investigations, and undertake scenario exercises and incident-management drills that will involve FS clients.

The large cloud providers are likely to be captured in the UK as well, given the scale of their support to FS

With EU's DORA and the UK's operational resilience regime now embedded, supervisors will test resilience under these new rules as AI scales. Expect close attention to resilience testing, auditability, transparency, and credible business continuity and exit plans, treating concentration across cloud, compute, and foundation models as a core risk.

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firms. Vendors whose standalone AI offerings might not, by themselves, meet the criteria for designation could still be captured if they deliver tightly bundled services that combine cloud infrastructure, models, and data in ways that are difficult to separate.

This does not dilute firms' accountability. Boards will still own end-to-end resilience and remain responsible for regulatory compliance. However, vendor supervision can support greater transparency and stronger contractual standards, by requiring both vendors and FS firms to ensure contracts are aligned with regulatory requirements. This is likely to generate broader ripple effects for firms. These include increased supervisory interaction, often channelled through their vendors, involving requests for test records, joint drills, and evidence of remediation. Findings from vendor examinations may inform supervisors' views on individual firms and their AI resilience capabilities. For example, where supervisors prompt a model vendor to tighten controls or modify a foundation model, FS firms may need to re-validate outputs or rerun resilience tests.

Final considerations

Scaling AI safely, in line with risk appetite and regulatory expectations, requires some core capabilities to be put in place. Strong AI governance, with clear accountability at board and senior manager level, is essential. So too is a secure foundation of effective model risk management, data governance and operational resilience. Together they underpin any effective AI strategy. These are not just necessities to ensure compliance. Done well, AI governance is a strategic enabler to identify and prioritise use cases, direct investment accordingly, and allow firms to scale with confidence and realise value.

A word on Smart Data and Open Finance

While AI governance requires immediate attention, smart data and open finance frameworks are developing more slowly. EU negotiations on the Financial Data Access regulation are progressing slowly, due largely to a lack of consensus around scope and timelines, with an agreement now unlikely before late 2026. In the UK, progress is marginally faster following the passage of the Data (Use and Access) Act, though momentum remains measured. The FCA's Open Finance roadmap, due early 2026, will outline priorities, but the rulebook will not be finalised before 2027. In the interim, the FCA is running Open Finance TechSprints, with an initial focus on mortgages and Small and Medium-sized Enterprises lending use cases, suggesting a phased approach, building incrementally from the existing open banking framework.

Private markets

Managing the risks of growing private markets exposure

Background

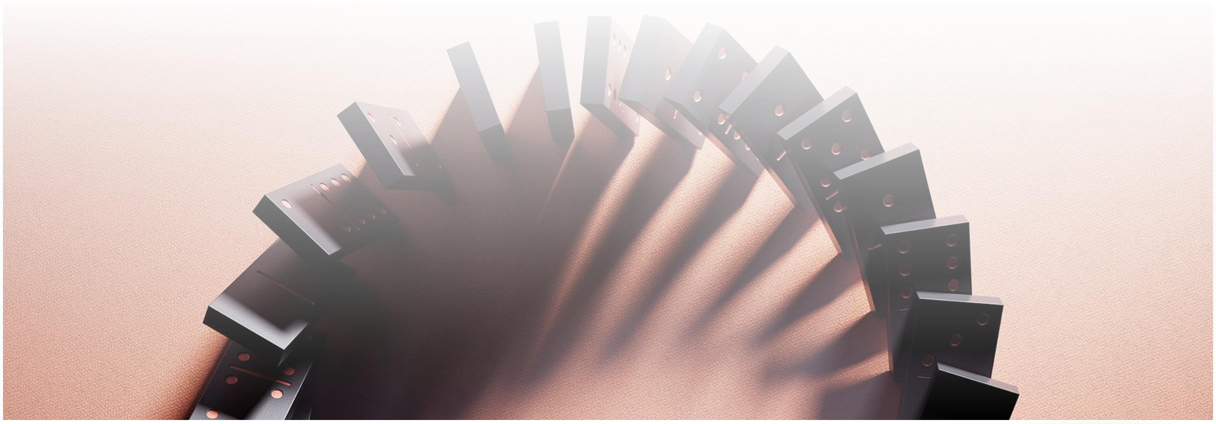
The amount of capital deployed in private markets,[54] including private equity and private credit, has grown substantially over the last 20 years. Current estimates put assets at over $15 trillion globally.[55] A recent forecast projected global private credit assets under management alone to increase from ~$2.3 to ~$4.5 trillion by 2030.[56] This expansion is inevitably attracting increasing supervisory and regulatory focus, mirroring the broader and ongoing scrutiny of market-based finance and non-bank financial institutions (NBFIs), including hedge funds, money market funds and insurers.

None of this will surprise those familiar with the extensive material that global standard setters, especially the Financial Stability Board (FSB), and many national regulators and supervisors, including the Bank of England (BoE), Prudential Regulation Authority (PRA), Financial Conduct Authority (FCA) and European Central Bank (ECB), have published on private markets and NBFIs. Yet, many countries have been slow to translate global standards and good practices into national regulations and rules. We do not expect this to change in 2026, absent an event significant enough to require both swift tactical interventions and a concerted global response.

Nonetheless, we do expect 2026 to be different. Financial services firms that are active in and/or exposed to private markets should be ready for an increase in supervisory activity. More importantly, boards and senior management teams need to set their appetite for private market risks at the right level and put in place effective systems and controls to operate within it.

Supervisory priorities for 2026 – what will be different and why?

Many supervisory concerns about NBFIs and private markets are longstanding; some date back to the Financial Stability Forum's (the FSB's predecessor) report on highly leveraged institutions published in 2000.[57] These concerns include leverage, counterparty credit risk management, concentration risk,



Private markets

interconnectedness with the wider financial system, and data limitations hindering supervisors' ability to identify and measure risks. Although the precise nature of these concerns will continue to evolve, they remain relevant – a "supervisory constant".

Another key (and growing) concern for regulators is that private markets are untested in stress. To that end, a key development in 2026 is the BoE's system-wide exploratory scenario (SWES), which will explore whether the actions taken by banks and NBFIs in response to a global macroeconomic downturn scenario can amplify stress across the system and pose risks to financial stability.

We also expect two new developments in relation to private markets to drive increased supervisory activity in 2026. First, governments both need and want private markets to support their economic growth objectives. This includes efforts to "democratise" markets, making private assets more accessible to pension funds and retail investors.

Unsurprisingly, most regulatory statements about private markets and private assets now start by striking a careful balance, to acknowledge the benefits they bring as well as the risks.[58] But if governments want private markets to continue to play a key role, they (and their regulators) also need to ensure that the risks they pose are properly identified and controlled, with due regard to investor protection *[see the investment management and wealth op-ed for further details]*. Any significant missteps could undermine confidence in these markets.[59]

> *Boards and senior management teams need to set their appetite for private market risks at the right level and put in place effective systems and controls to operate within it.*

Second, two recent US corporate defaults have drawn attention to private markets and, in particular, private credit. These incidents raised questions about weak underwriting standards on the part of those that financed the corporates, the use of collateralised loan obligations (CLOs) and other asset-backed securities in funding structures, high leverage and complicated corporate structures, as well as concerns about possible fraud. Although the initial market reaction was to treat these defaults as idiosyncratic events, we expect supervisors will undoubtedly look for signs of system-wide weaknesses.[60]

These defaults summon up memories of some of the conditions and weaknesses that contributed to the Great Financial Crisis (GFC). In a similar vein, some supervisors have raised questions about:

- The effective removal of (private) credit risks from banks' balance sheets, for example when banks lend to the same NBFIs, including private credit vehicles, that are also providing credit insurance; and
- The role of (secondary) ratings agencies in rating private assets, and the increased use of confidential rating assessments in the form of Private Letter Ratings and credit opinions. This raises the concern that firms may over-rely on ratings at the expense of their own due diligence and rigorous underwriting standards.

Private markets

While there may well be significant differences between these current developments and those that preceded the GFC, we do not expect supervisors to give firms the benefit of the doubt. On the contrary, they will be keen to demonstrate that they can remember the past and are not condemned to repeat it.

What firms can expect from supervisory scrutiny of their involvement in private markets in 2026

Supervisory oversight of private markets operates on two distinct, yet complementary, levels: micro-prudential, focusing on individual firms' exposure management, and macro-prudential, assessing how private markets may affect systemic stability in the UK. This year, the BoE's SWES will serve as the key macro-prudential exercise, specifically focusing on private markets. It will explore the risks and dynamics of actions taken by banks and NBFIs in response to a shock, how these actions may interact at the system level and whether they can amplify stress across the system and pose risks to financial stability.

Although the SWES will not test the resilience of individual firms, the concerns driving the SWES (and the results) will also shape the priorities of the micro-prudential supervisors – the PRA and FCA, with the latter also addressing conduct risks. Within the micro-prudential context, we see two supervisory priorities that will apply across all sectors.

First, firms can expect supervisory scrutiny of their ability to identify, quantify and aggregate their direct and indirect private market exposures, regardless of their involvement in the SWES. Supervisors are not yet convinced that firms can do this effectively, given persistent challenges in monitoring exposures comprehensively across debtors, instrument types, business lines and legal entities. Boards and senior management also have a strong incentive to fix any data gaps, given that understanding the nature and extent of their firm's exposure is a prerequisite for effective risk management and governance.

The second supervisory priority that cuts across sectors is valuations: specifically, the accuracy and frequency with which firms can (re)value positions in private credit or equity funds, CLOs, collateralised fund obligations, private placements or other private assets. The FCA has already reviewed valuation practices across a sample of private markets firms *[see the investment management and wealth op-ed for further details]*.

However, valuation considerations extend to many other private market participants. These include

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banks and insurance companies that hold private assets on their balance sheets or take them as collateral, and investment managers or advisory firms planning to offer private assets to retail customers.

Beyond these cross-sector themes, we also expect micro-prudential supervisors to focus on several sector-specific issues.

The BoE's SWES will include key firms active in private markets, including traditional and alternative asset managers. This will put a spotlight on their stress testing capabilities, including the maturity of their models, data quality, scenario design and analysis and aggregation and reporting. In time, we expect supervisors to extend their interest in stress testing to other firms. More generally, and as signalled by the FCA, we expect supervisors to ask private markets firms for more data to inform their risk assessment. Our *investment management and wealth op-ed* gives our view of broader supervisory priorities for private markets.

Banks should prepare for continuing supervisory scrutiny of their approach to counterparty credit risk management, building on prior work done by the PRA and ECB. In addition, we expect more work on banks' direct and indirect exposures to private credit, given the extent to which private credit firms and funds rely on banks for their own financing.[61]

There are also at least two liquidity and funding angles. First, NBFIs provide funding to banks; for example, NBFIs are net lenders to euro banks.[62] This raises questions about banks' preparedness for significant fund withdrawals should NBFIs face liquidity stresses. Second, banks provide committed facilities to private credit and equity funds, which may call on any undrawn portion when faced with funding needs. Supervisors will look to banks to demonstrate that these risks are fully considered in their liquidity (and credit) stress tests.

The life insurance industry has increased its exposure to private markets in the last five years, both directly and through the use of asset intensive reinsurance (AIR, or FundedRe in the UK). European insurers increased their allocations to illiquid assets from 8% in 2017 to about 15% in 2023.[63] European insurers' exposure to private credit instruments as at end-2024 was c.13% of their total assets.[64]

We expect these developments to result in continuing supervisory focus on insurers' use of AIR, their approaches to credit risk management and to valuations *[see the life insurance op-ed for further details]*. Some supervisors may emulate Belgium and Germany in setting up specialised teams to monitor private credit. Private equity-owned insurers will attract particular supervisory attention, given that they "invest substantially more in illiquid assets, such as private credit, around the world than the average insurer".[65]

Final considerations

We expect 2026 to be a testing year for firms active in private markets, amid growing concerns over whether the current market cycle has reached its peak. Opportunities and investor interest will endure but will be accompanied by a sharper focus on the risks and increased supervisory scrutiny.

In some respects, the slow progress on national adoption of global standards will prompt some supervisors to step up their activity to fill the vacuum, especially given how much private markets business is done on a cross-border basis. Supervisors have been transparent about their concerns. Boards and senior management should address the same issues, as part of their own risk management.

Sector perspectives

Banking and capital markets

Navigating uncertain oceans: charting a course through economic, regulatory and supervisory challenges

European banks enter 2026 in a strong position, having withstood significant geopolitical and macroeconomic headwinds in 2025 without being blown off course. While 2026 may bring its own headwinds – such as declining interest rates and continuing competition from alternative lenders – strong capital and liquidity positions offer a robust level of resilience.

Yet uncertainty clouds the horizon. New, hybrid risks are emerging as structural forces such as geopolitical fragmentation and technological development reshape the operating environment. Efforts to boost growth and competitiveness by reducing the regulatory burden on banks have widened the range of potential regulatory outcomes and increased global regulatory fragmentation.

These factors place an increasing emphasis on banks' ability to develop a forward-looking view: anticipating the outcome of the simplification and competitiveness agenda, identifying and adjusting to risks emerging from new sources, and seizing the opportunities arising from the changing landscape.

Regulatory (R)evolution

Despite political momentum, banking-specific "simplification" efforts in the EU and UK were limited in 2025. However, more meaningful change may be on the horizon. Governments and regulators are considering material changes to key pillars of post-crisis reform – including the Senior Managers and Certification Regime, the UK ring-fencing regime, and the capital buffer framework.

It is no surprise that policymakers have turned their attention to the capital buffer framework. Reform offers tantalising benefits – from reducing complexity to freeing up additional capacity to finance growth.

There are positive signals from regulators about their appetite for change in this area. The Bank of England's (BoE) Financial Policy Committee (FPC) proposed reducing its benchmark for the appropriate capital level for the UK banking system by 1 percentage point (from 14% of Tier 1 capital to 13%), albeit without making any immediate changes to individual banks' capital requirements.

Banking and capital markets

In the near term, UK regulators plan to review local requirements and instances of "gold-plating" above international standards (such as the UK leverage ratio framework, including the use of buffers within it, and double-counting in the treatment of domestic exposures). More broadly, the FPC has indicated that it will work with the Prudential Regulation Authority (PRA) and international authorities to enhance the usability of capital buffers. It remains to be seen whether UK banks will reduce the size of their "management buffers" above regulatory requirements in response – realistically, this may not happen until banks know the results of the UK regulators' ongoing reviews.

In the EU, the Commission will publish its report on the EU banking sector's competitiveness towards the end of this year. However, the European Central Bank's (ECB) recommendations for simplifying banking rules, published in late 2025, indicated its appetite for a fundamental review of the capital framework – including simplified capital buffers (consolidating existing capital buffers into a releasable and non-releasable buffer), and either abolishing or significantly altering the role of non-common equity Tier 1 instruments (Additional Tier 1 and Tier 2).

Given the need for legislative change (and the challenge in securing political agreement on the details of the ECB's recommendations and other proposals that emerge from the Commission's report), we do not expect any changes to take effect until 2028, at the earliest.

UK and EU policymakers will also face a dilemma – either waiting for international agreement on more radical changes (which, by the Basel Committee's own admission, is currently difficult to achieve[66]), or diverging from international standards. If they wish to move more quickly, they will almost inevitably have to diverge.

> *Despite political momentum, banking-specific "simplification" efforts in the EU and UK were limited in 2025. However, more meaningful change may be on the horizon. Governments and regulators are considering material changes to key pillars of post-crisis reform.*

The UK has more room for manoeuvre on its ring-fencing regime. Here again, the range of policy options is wide, albeit constrained by the Government's position that the ring-fence will remain in place. We expect moves to enable ring-fenced banks to draw more heavily on IT and other services provided by other parts of their group, but that change alone is unlikely to meet the Government's objective of boosting UK banks' capacity to finance growth.

Banks that can provide robust evidence for more fundamental changes – for example, related to the flow of financial resources across ring-fenced groups, or solo-level requirements for ring-fenced entities - may find they are pushing at an open door. Indeed, the BoE has indicated that it will review the application of the output floor to ring-fenced sub-groups, albeit only after Basel 3.1 has been implemented in 2027.

Banking and capital markets

These changes will take some time to agree, legislate and implement. While the end result may be positive, simplification initiatives have, paradoxically, **introduced additional regulatory fragmentation for cross-border banks** by increasing the number of differences between UK and EU regimes. If UK and EU regulators do not coordinate their simplification efforts, there is a risk that this additional cross-border complexity dampens the aggregate positive effect of well-intentioned simplification initiatives. Domestic banks will see more immediate benefit.

The additional complexity for cross-border firms is compounded by ongoing uncertainty over international consistency of the Basel framework. Indications are that the US will repropose its Endgame package in H1 2026, with finalisation occurring in late-2026 or 2027. Endgame proposals may reduce capital requirements for smaller firms, while net changes are likely to be more modest for larger firms, compared to the initial proposal.

Whatever the US approach may be, significant change to UK/EU banking book approaches is unlikely. The medium-term future of the Fundamental Review of the Trading Book (FRTB) is, however, less certain if the US does not commit to its implementation. We see standardised FRTB enduring: the prospect for modelled approaches is less clear.

In the meantime, banks that provide cross-border core banking services into the EU from third countries will need to finalise their preparations for Capital Requirements Directive 6 (CRD6) restrictions on these services. Member States were due to transpose CRD6 by 10 January 2026. As of 10 January 2026 transposition had been completed in 3 out of the 27 Member States.

While transposition provides some clarity, it will not answer all of the industry's questions. Banks will need to decide their strategies before the grandfathering period ends on 11 July 2026, most likely without clarity over key issues such as reverse solicitation boundaries and Markets in Financial Instruments Directive ancillary services. Despite these challenges, banks should develop their compliance approach, validating assumptions with peers through industry working groups and other specialist forums. This will necessitate a review of booking arrangements to ensure alignment with the final European Banking Authority requirements.[67]

Booking models will be in focus in the UK where banks should continue to execute their individual enhancement plans and prepare for feedback from the PRA on their self-assessment against updated Supervisory Statement 5/21expectations. The PRA focus will likely be on documentation of permitted booking practices, management information (MI), remote booking supervision and demonstrating an effective balance between detective and preventative controls.

> *While the end result may be positive, simplification initiatives have, paradoxically, introduced additional regulatory fragmentation for cross-border banks by increasing the number of differences between UK and EU regimes.*

Banking and capital markets

Market changes – efficiency is the byword

For wholesale banks and capital markets firms, a focus will be on enhancing efficiency, including anticipated changes to transaction reporting. The Financial Conduct Authority (FCA) is consulting on improving the transaction reporting regime – whilst this may make reporting more efficient, it may also lead to divergence between the UK and EU approaches and further complexity.

Discussions with market practitioners suggest that transaction reporting is a rising compliance priority for wholesale banks and capital markets firms, with change projects likely to be large and costly. Firms should develop changes to existing processes and assess how to tackle potential UK/EU divergence. They should also ensure sufficiently senior ownership and effective governance for transaction reporting, as poor performance here can have significant knock-on effects, compromising market abuse detection and risk management and increasing supervisory scrutiny and reputational damage.

2026 is the final full year before T+1 transition in the UK and Europe. In October 2025, the European Securities and Markets Authority (ESMA) published Level 2 requirements setting deadlines for pre-settlement processes as early as December 2026 to facilitate the transition.

While some firms are waiting for ESMA to finalise its "user manual" before moving forward, those EU firms that have made a start have encountered challenges related to: standardised settlement instructions; partial settlement; securities financing transactions, and testing – and have generally found transition to T+1 in the EU to be more complex than it was in the US. Successful transition will rely on firms executing tailored implementation plans, based on impact analyses that should have been completed in 2025.

In addition to transaction reporting and T+1, firms will need to finalise their preparations for mandatory centralised clearing of cash US Treasury transactions by the end of 2026.

Banking and capital markets

Supervision against an uncertain backdrop

As the simplification agenda has gathered momentum across Europe, banking supervisors are seeking to use their resources more efficiently. For instance, the ECB's reformed Supervisory Review and Evaluation Process (SREP) will be more "targeted, efficient and risk-based", and will use a new "tiered" approach to supervisory findings that allows firms to address less severe findings internally. In the UK, the FCA is intending to take a more risk-based approach to supervision, particularly in areas where firms can demonstrate they are "doing the right thing for consumers".

However, resources redirected does not necessarily mean resources reduced. Supervisors are sharpening their focus on whether banks can maintain their current resilience in the face of heightened geopolitical and cyber-related risks, rapid technological change, and increasing interconnectedness between the banking sector and non-bank financial institutions.

Asset quality has shown little sign of deterioration (so far) as a result of turbulence in 2025. However, supervisors remain vigilant to pockets of risk, including in long-standing areas such as small and medium-sized enterprises and commercial real estate lending, and in relation to export-oriented sectors most exposed to trade restrictions. More generally, they want to ensure that banks' credit standards remain robust (with the ECB planning a review of credit underwriting standards and loan pricing in 2026).

Supervisors also want to understand the risks that are emerging from structural changes to credit markets – in particular, the emergence of **private credit** as an alternative to bank lending. In early 2026, the BoE will kick-off a system-wide exploratory scenario focused on the private markets ecosystem, including private credit.

> *As the simplification agenda has gathered momentum across Europe, banking supervisors are seeking to use their resources more efficiently [...] however, resources redirected does not necessarily mean resources reduced.*

While not all banks will have significant direct exposure to private credit, explored further in our *private markets op-ed*, all **banks will need to demonstrate capabilities to map and report internally, and to supervisors,** their understanding of the second and third order effects of stress emerging in the private credit sector. This will require them to demonstrate their understanding of correlations under stress, which of their bank and non-bank counterparties are most exposed to problems in the private credit market and how they will be affected by problems in this market.

More generally, banks must demonstrate that **core capabilities are evolving to keep pace with the risk environment.** This will result in continuing focus on **data, stress testing, operational and cyber resilience, governance and risk culture, and resolvability.**

Banking and capital markets

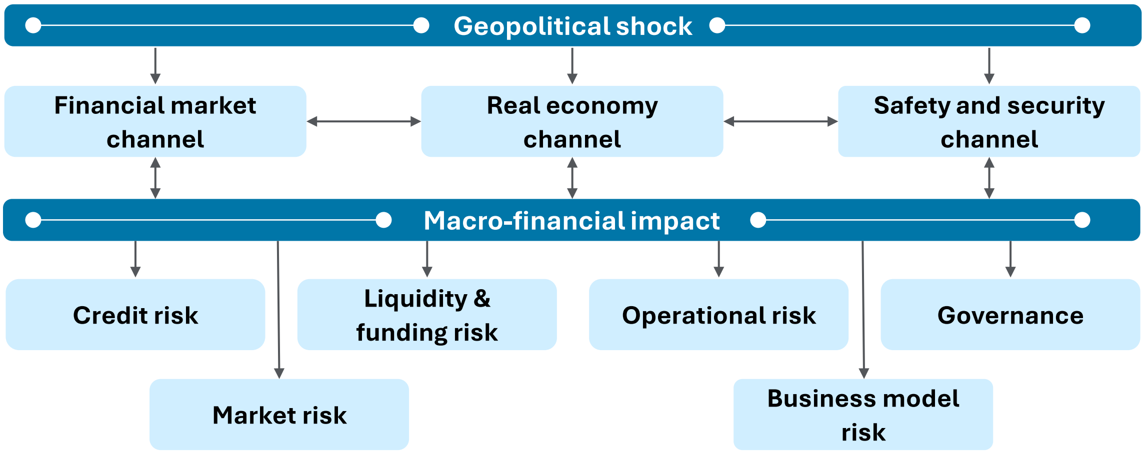
Clear individual accountabilities and incentives to address supervisory feedback will become all the more important for EU banks in the face of a new individual accountability framework set to be implemented through CRD6. In the UK, regulators have sought to strengthen individual accountability and link remuneration incentives more directly to addressing concerns expressed in supervisory periodic summary meeting letters.

Data remains a remediation priority for supervisors in both the UK and EU. While some banks still have work to do to get the basics right, they must also show that their data capabilities are evolving to support effective identification and modelling of emerging risks, and enable the bank to deliver rapidly varying views of its exposure to sectors, products and geographies. Boards and senior management teams must demonstrate that their MI allows them to steer the bank effectively and that they use tools such as stress testing and scenario analysis to help them identify and respond to future challenges.

The ECB's 2026 **geopolitical risk** reverse stress test (RST)[68] will be a real test of the maturity of banks' modelling, scenario generation and decision-making capabilities. We expect supervisory scrutiny of geopolitical risk management to endure beyond the ECB's exercise, influencing SREP scores on business model sustainability, risk management and governance, and operational / ICT risk.

Understanding how upstream geopolitical risks flow through to financial risks (expanding on the ECB's transmission mechanism map in Figure 1) is a key task for all banks. The events of 2025, (including, but not limited to, the April 2025 tariff-related shock) provide a valuable test case, and banks can begin to gather historical data on the impact on different risk domains, and identify where investment in capabilities or strengthened governance are required.

Figure 1: Transmission of geopolitical tensions to banks



Source: ECB[69]

As with private credit, the impact of geopolitical risks on banks will often be second or third order. Effective risk identification and management will require banks to strengthen their understanding of their clients' value chains. Doing so will require increased engagement with counterparties by the first line of defence, supported by appropriate first line accountability for managing risk. Should the geopolitical RST deliver compelling insights, we expect that supervisors will look to use RSTs to assess other risks.

In addition to risks stemming from international sources, UK banks face a more parochial issue. The

Banking and capital markets

motor finance redress scheme will require considerable resources in 2026. The FCA is expected to finalise the scheme rules in February or March, with consumer payouts commencing later in 2026.

Key challenges include the short timeframe to pay compensation to those who have already complained (c.4m customers); identifying new in-scope customers (due to the need for data and agreements from possibly as far back as 2007); and managing a complex communications plan with up to c.14.2m customers, all the while evidencing compliance with the scheme's requirements. Many banks have already strengthened their provisions for the costs of the scheme while others may still have to do so when the final rules determine the full scale of the task ahead.

Not all doom and gloom

Uncertainty also presents opportunities: the challenge for banks is identifying those opportunities that are worth the cost of pursuit. For example: in the UK, **the PRA has raised the intriguing possibility of a** foundation internal ratings based (FIRB) approach **for mortgage lending for medium-sized banks.** However, the policy discussion is at a very early stage, and medium-sized banks already on a trajectory to advanced internal ratings-based (AIRB) will have to decide whether to "stick or twist" on further investment until further clarity on the PRA's approach emerges.

This is a difficult strategic decision, given uncertainty around the calibration and permanence of any potential FIRB approach. In practice, we expect banks that have already developed their loss given default and exposures at default models for AIRB are more likely to proceed as planned. Those with fewer sunk costs (or those further back in the model approval "queue") are better placed to take a "wait and see" approach, retaining the option to switch to FIRB once the PRA's policy becomes clearer.

In December, the FCA published its final rules on Targeted Support (TS). The regime's main objective is to narrow the advice gap to foster better outcomes for customers and is due to launch in April 2026. We see TS as having the potential to transform the retail pensions and investment market. However, developing a TS pathway is likely to require significant strategic decisions and investment.

Retail banks with established investment arms might find it easier to develop a TS offering, leveraging their access to customer data and their own product offerings. Others, such as building societies reliant on cash-deposits, must consider the TS threat and weigh up the benefits of partnering with third parties. We expect solving data challenges and operational complexity to be crucial for TS success.

Elsewhere, increasing market momentum and regulatory clarity will enable banks across Europe to assess how to engage with stablecoins and tokenised bank deposits in 2026 *[see the digital assets and payments op-ed for further details]*.

Final thoughts

In a year that will be dominated by macro-level uncertainty, banks will need to demonstrate that their data, risk management and governance are up to the task of steering a path through the challenges. Banks will need to show they are making risk-sensitive, well analysed decisions - with appropriate governance - about which opportunities to pursue, while ensuring horizon scanning is doing its job, and keeping an eye on long-running supervisory priorities.

General insurance

Delivering growth and good customer outcomes

In 2026 general insurers in the UK and EU will have to engage with both government-driven growth agendas and more traditional regulatory agendas. The **growth and regulatory simplification agenda** presents commercial insurers with a range of opportunities. However, in some areas the costs of implementation may exceed the benefits, thereby limiting the rate of adoption.

The **traditional regulatory agenda**, focusing on consumer protection for retail customers, remains a priority. If, as we think likely, there is further consolidation in the retail general insurance (GI) market in 2026, insurers will need to ensure they keep customer outcomes front of mind when selecting consolidation targets and migrating customer portfolios.

Growth is in easier reach of those active in the fastest growing lines of business in the market, such as cyber and property and casualty (P&C). But achieving it will require best-in-class risk management and underwriting discipline, in particular when using extensive delegated underwriting. The Prudential Regulation Authority (PRA) will be able to assess whether general insurers have achieved this in its Dynamic General Insurance Stress Test (DyGIST) in May.

Unlocking opportunities in the insurance sector

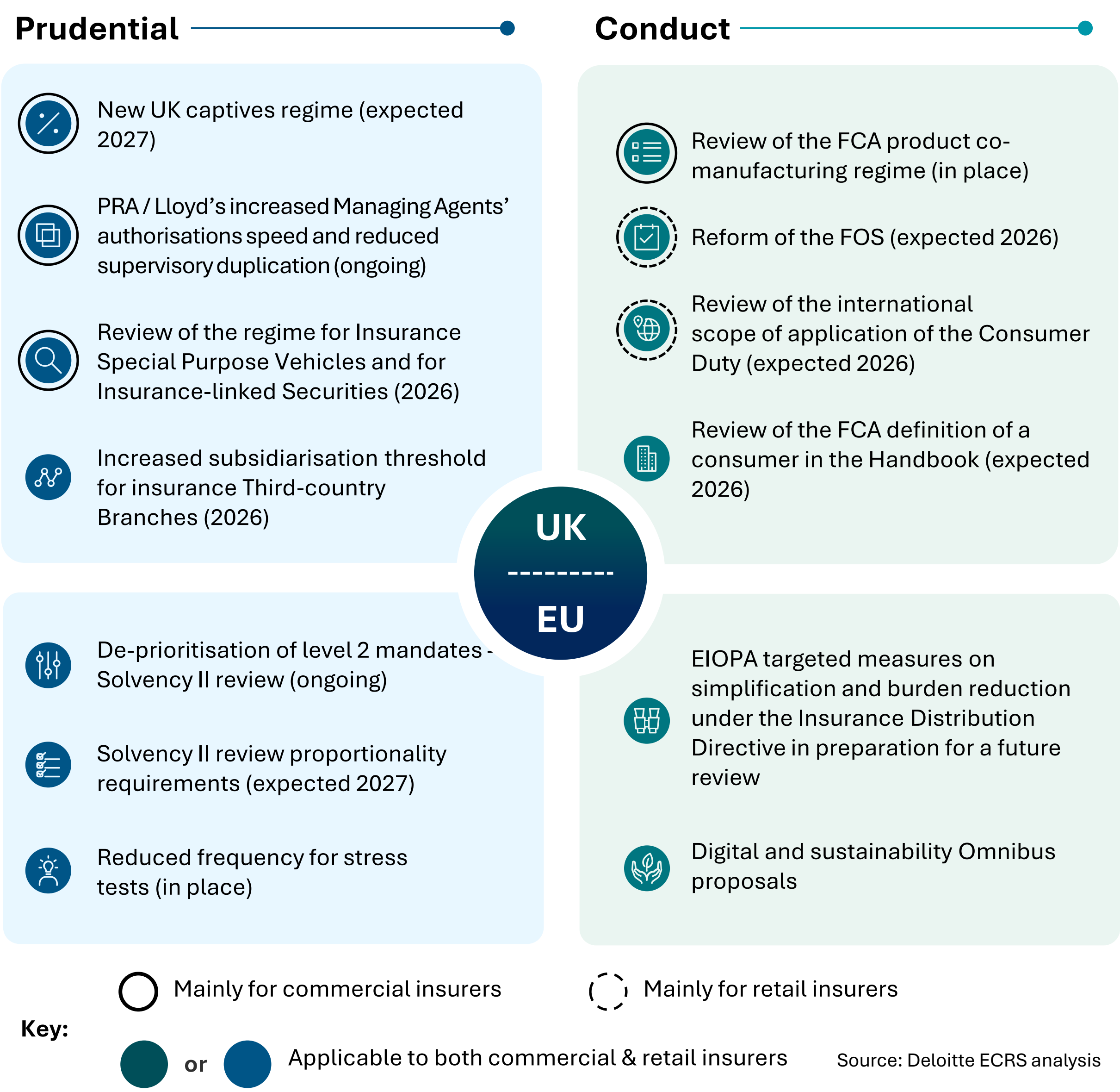
The regulatory simplification agendas in the EU and UK, driven by a mission to fuel growth in the insurance sector (Figure 1), can present commercial general insurers with a range of opportunities. Some of these initiatives emphasise proportionality and ease of doing business, as seen in both EU Solvency 2 reforms and recent PRA/Society of Lloyd's discussions to accelerate the authorisation of managing agents and remove duplication of supervision.

Both the EU and UK are also targeting insurance captive market growth by developing a new regime (UK) or simplifying the current regime to make it more proportionate (EU). The PRA is also updating and refining its Insurance Special Purpose Vehicle (ISPV) regime to make it easier for insurers to connect to capital markets using insurance-linked securities (ILS) such as catastrophe and cyber bonds.

General insurance

This means that insurers planning to grow their cyber and catastrophe cover business lines should explore the avenues to increase their use of ISPVs and ILS. Similarly, large insurers with a material commercial customer base should consider developing or enhancing their captive administrator capabilities to meet increasing demand for these services.

Figure 1: Growth-enhancing regulatory initiatives for general insurers: a stock take



Source: Deloitte ECRS analysis

Furthermore, the UK's Financial Conduct Authority (FCA) is advancing proposals to review its consumer protection framework, particularly the scope of the Consumer Duty ("the Duty"). The FCA intends to establish a clearer distinction between conduct rules applying to commercial versus retail customers. This is evident in its recent Handbook changes to simplify insurance rules including:

General insurance

- New definitions of "larger commercial customer" and "specialist risks contracts" allowing firms to exclude larger small and medium sized enterprises from the full scope the Duty.
- A review of requirements in relation to co-manufacturing arrangements.

In addition, the FCA will consult on developing a definition of "retail customer" (to assist firms by drawing a clearer line between commercial and retail consumers) and removing non-UK consumers from the Duty's scope. This means that wholesale insurers will have to wait until well into the year for a clearer picture of the full extent of regulatory simplification.

These changes, once finalised, could lead to a more proportionate approach to conduct risk within the commercial insurance sector in the UK. However, to benefit fully, firms will likely need to reassess their current business models, data collection practices and product and target market definitions. Firms will have to evaluate the costs and benefits carefully to justify investment to leverage new possibilities offered by regulatory change, while allowing flexibility in their approach as the impact of new initiatives becomes clearer through 2026.

Navigating the storm: scaling up while staying compliant in personal lines

Significant market pressures on personal lines may accelerate consolidation in the GI market

In the last three years the UK personal lines insurance sector has come under intense FCA scrutiny driven by conduct regulatory reform such as the Duty and pricing practices rules. This, alongside increased claims inflation in 2022 and 2023, has put material pressure on margins in the motor industry, as highlighted by the UK's Motor Insurance Taskforce.[70]

This environment has led to **significant market consolidation** and transformation which are still playing out. We note a similar trend in the EU,[71] where competition is intensifying, yet average motor insurance prices are still rising, and getting closer to UK levels[72] (e.g., in France and Germany). These pressures may lead to similar consolidation trends in continental Europe, although they will translate differently[73] across Member States depending on each market's characteristics and differences in areas of supervisory focus (e.g., around implementation of the Insurance Distribution Directive).[74][75]

We believe it is likely that there will be further consolidation in the retail GI market in 2026. Insurers should keep customer outcomes and **consumer protection hot spots** (see below) front of mind when selecting consolidation targets and migrating customer portfolios.

The ebb and flow of consumer protection hot spots in GI

The UK remains a frontrunner on retail conduct issues, and areas of supervisory focus in the UK can signal future trends in EU Member States. Aligned to the growth and simplification agenda, the FCA has signalled its intent to move towards a less intrusive supervisory approach for those firms that can *"demonstrably show they are seeking to do the right thing for customers"* and to focus on areas of *"greater harm."*[76] The FCA and UK Government have also eased the pressure on UK insurers around differentiated pricing[77] and motor insurance pricing[78] by confirming that most of the price differentials can be justified on the basis of risk.

General insurance

Meanwhile in the EU, insurers are gradually incorporating conduct risk into their business as usual approaches (for example in France[79] and Ireland). The European Insurance and Occupational Pensions Authority will focus on the distribution of insurance products through digital channels this year, whilst some EU supervisors are progressively raising the bar on customer outcomes.[80]

However, there are still areas of concern with the UK press and consumer groups continuing to highlight areas of poor customer outcomes, such as in **claims handling in the home and travel sectors**. Following the *Which?* super complaint in late September 2025, the FCA announced that it will conduct reviews of claims handling, servicing and consumer understanding during 2026.[81 82]

If insurers have not done so already, they should identify and rectify the root cause of harm in claims handling processes. To do this, firms need to consider how they are monitoring outcomes in claims, the metrics being used, and the systems and controls involved as well as whether product design, target market definition and poor consumer understanding of product coverage could be exacerbating poor outcomes. For example, the FCA found that **storm claims** have a much greater rate of rejection than most other GI products. As storms are likely to become increasingly severe and frequent,[83] this is a red flag that requires firms to act to reduce foreseeable harm. In conclusion, we expect firms will have to carry out significant work in this area this year. **Firms should leverage insights gained from home and travel claims' reviews to ensure consistently good claims handling outcomes across their entire personal lines portfolio.**

> *Firms need to consider how they are monitoring outcomes in claims, the metrics being used, and the systems and controls involved as well as whether product design, target market definition and poor consumer understanding of product coverage could be exacerbating poor outcomes.*

The FCA's much-anticipated Premium Finance Market Study report has been delayed to Q1 2026. The final report will likely focus on higher-priced premium finance products (annual percentage rates (APRs) close to 30% had been flagged as likely excessive) and their impact on customers with vulnerable characteristics. We expect firms will have to conduct a detailed review of their pricing structures, and the impact on groups of customers identified as vulnerable. **Premium finance products with high APRs compared to the rest of the market that are not explained by higher risks will require rigorous scrutiny from a fair value perspective.** This means that this year we are likely to see change in the motor insurance market as firms move to meet the FCA's expectations in this area.

We believe firms must adopt **a proactive, risk-based approach to compliance to navigate the ebb and flow of consumer protection hotspots in the sector**. This means establishing systems that can promptly **"sound the alarm" when customer outcomes deteriorate, helping to identify specific customer cohorts at risk**.

General insurance

We are of the view that insurers with best-in-class claims data management, retail conduct management information, and operations, will be strongly positioned to explore acquisitions in a consolidating market. For those pursuing growth through acquisitions, **avoiding deterioration of customer servicing during migration processes** and thoroughly understanding the risks of newly acquired portfolios will be paramount.

Risk management in focus: preparing for DyGIST and future GI challenges

Above and beyond the growth opportunities emerging from regulatory simplification, the most significant opportunities in the GI sector stem from **increasing demand for protection**. This is driven by an environment shaped by economic volatility, geopolitical tensions, and escalating climate risks. Insurers are rising to this challenge, evidenced by the growing levels of **cyber insurance and P&C premiums**, which are expanding at a rate exceeding overall economic growth globally but where increasing competition is also creating downward pricing pressures.

A crucial driver of this expansion is the rise of specialised insurance carriers and distributors, particularly managing general agents (MGAs). With over 300 MGAs now operating in the UK - a remarkable 60% growth since 2019 – these entities are reshaping the market.[84] The EU market has also seen significant growth, with most of the MGAs being domiciled in Benelux, Germany and Italy.[85][86]

Under the MGA model, traditional insurance carriers provide capital and delegate key functions such as pricing and underwriting to specialised MGAs. This allows the carrier to enter new markets without having to build deep expertise and to take advantage of the more nimble nature of MGAs to operate their business.

The growth in specific lines of business alongside the rise in delegated underwriting result in unique complexities that attract regulatory attention such as the need for oversight and controls over MGAs and dealing with conflicts of interest between carrier and MGA when selecting risks. **Governance over risk selection, robust on-boarding processes of new delegated authorities and ongoing oversight of their activities are key for capitalising on this growth successfully.**

It is against this background that, in the UK, the PRA will conduct its first **DyGIST in May 2026** involving a live simulation of three different stress events over three weeks.

We see a direct link between the DyGIST and an insurer’s ability to price and manage risks accurately and promptly and grow the business safely, underpinned by high quality, reliable data and good oversight and understanding of the models it relies on. **The DyGIST will test these risk management capabilities, potentially highlighting areas for improvement and paving the way for the PRA to elevate its expectations and introduce new requirements.**

Therefore, firms **must assess their current risk management maturity across all lines of business**. Early preparation for this exercise and the identification of potential weaknesses will be crucial. Addressing these areas ahead of time will pre-empt significant challenges later in the year, safeguarding a firm's ability to pursue growth effectively in key business lines.

Life insurance

Growth opportunities will require strategic decision making

In the defined contribution (DC) pension market, firms are facing pressure to consolidate their default arrangements (driven by the new UK Pension Schemes Bill) and to decide how they will implement Targeted Support (TS) to deliver better retirement outcomes, while growing their DC business. Life insurers in the bulk purchase annuity (BPA) market will continue to compete for deals expected to remain at around £40bn a year. The market remains extremely competitive driven by an increasing number of firms (re)entering the market and the emergence of new sources of capital. To succeed, insurers need to navigate increasing regulatory requirements while strengthening their operational capabilities to enable them both to price accurately and absorb and manage the acquired pensions liabilities.

Transforming the DC pensions market

In Europe (including the UK), the DC market is at the centre of ambitious reform plans built on two pillars:

1. **Size and consolidation,** especially in the UK, through requirements to increase the size of schemes/funds and to improve fund performance through more diversified investment including into private assets; and
2. **Consumer support,** by rethinking the provision of guidance and support to improve retirement outcomes.

DC pensions reform is gaining momentum in the UK where legislative changes are set to reshape the market. The EU Commission's reforms on DC pensions are at an earlier stage of development, but their objectives seem closely aligned to the UK's.

Life insurance

1. Consolidation: to be or not to be a workplace DC pensions provider by 2030?

UK and EU legislators are aiming to boost the size of DC schemes so that they reach critical size thresholds which should allow for greater investment in productive assets.[87] In the EU, the European Insurance and Occupational Pensions Authority (EIOPA) and the Commission have recommended to Member States the introduction of auto-enrollment to increase participation and saving rates in supplementary pensions. In the UK, where auto-enrollment is already well-established, the new Pension Schemes Bill will introduce a number of important structural reforms. It will require multi-employer DC schemes to have £25bn assets under management (AUM) by 2030 in their main default arrangement, and all schemes to conduct a value for money (VfM) assessment.[88] [89] Schemes offering poor VfM will eventually be required to transfer to other schemes, further increasing sectoral consolidation.[90]

UK multi-employer DC providers with current AUM between £5-15Bn will be under intense pressure to meet the 2030 deadline, and will likely need to combine internal consolidation and acquisitions to meet the threshold. The Government expects only c.20 DC Superfunds to survive in 2035 from this consolidation drive.[91] This year, all DC players in Europe will need to finalise a strategy for their DC future. In the UK, where the timeline is more pressing, the smallest players should focus on exit value maximization, while those intent on survival should have a clear plan to reach the threshold. The largest insurers will likely compete for acquisition targets in the next few years to reinforce their dominant positions in the market.

Embarking on ambitious fund consolidation programmes will require significant operational effort and is likely to be complicated by legal and compliance risks. For example, insurers may need to adjust fee structures and investment options to deliver good outcomes to customers following consolidation. In addition, many UK insurers will be looking to consolidate into a master trust structure as these provide more flexibility when it comes to transferring members between funds. Doing so will mean that more DC pensions business will move under the remit of the Pensions Regulator from the Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA). In the medium term, insurers will need to prepare to engage more extensively with a less familiar regulator that is likely to be looking to expand its capabilities considering it will oversee a much bigger share of the DC market in the next five years.

UK multi-employer DC providers with current AUM between £5-15Bn will be under intense pressure to meet the 2030 deadline, and will likely need to combine internal consolidation and acquisitions to meet the threshold.

2. Leveraging regulation and technology to improve retirement outcomes

51% of customers in the UK find it challenging to access pension information, and c.43% of UK workers are undersaving for retirement.[92] [93] In the EU, the picture is similar since more than a third of customers are not saving enough.[94] In response to this challenge, regulators are proposing a range of tools and regulations to improve retirement outcomes.

Life insurance

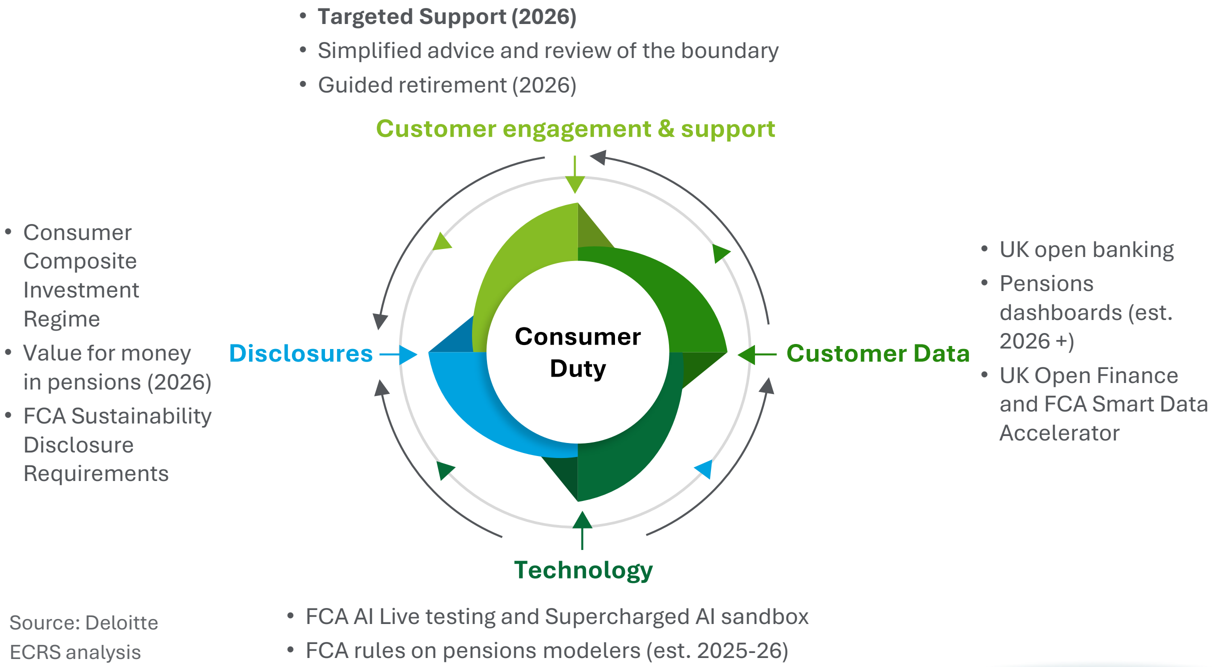
In both the UK and EU, regulators are aware of the critical relevance of **pensions dashboards** to give customers full visibility over their pension savings. The EU Commission has recommended that Member States should roll out dashboards while, in the UK, numerous providers are already connected to the Dashboard ecosystem for a launch expected this year. **Firms should consider how dashboards and other sources of data will affect their strategy to engage with customers around product value, customer understanding and decision-making.**

In the EU, the adequacy of the retirement advice regime is already under discussion, with EIOPA recommending the introduction of a form of simplified advice for *EuroPensions*. But on this issue, the UK has already made a significant step forward, with the introduction of the TS framework. It will offer a promising opportunity for firms to bridge the gap between guidance and financial advice. Firms offering TS will be able to make suggestions around pensions saving to groups of customers sharing similar characteristics.

The publication of the final rules on TS provides more clarity for firms developing TS solutions despite some uncertainty remaining *[click here to access our article on TS for more details]*. It is clear that **insurers will need to apply significant judgement across various areas of the regime to inform their approach to segment design, use of assumptions, and outcome monitoring**. We expect TS's success to hinge on firms' ability to leverage and gather high quality customer data, as highlighted by more than 50% of respondents to our ABI/Deloitte TS survey *[click here to access the survey findings]*.

TS will require firms to develop new products, customer journeys and communications, as well as risk and compliance processes, controls and metrics to deliver good outcomes for customers. In parallel, firms will also need to consider other, related developments, such as proposals on simplified advice, guided retirement and pensions dashboards (Figure 1).

Figure 1: Integrating Targeted Support into the wider regulatory landscape



Source: Deloitte ECRS analysis

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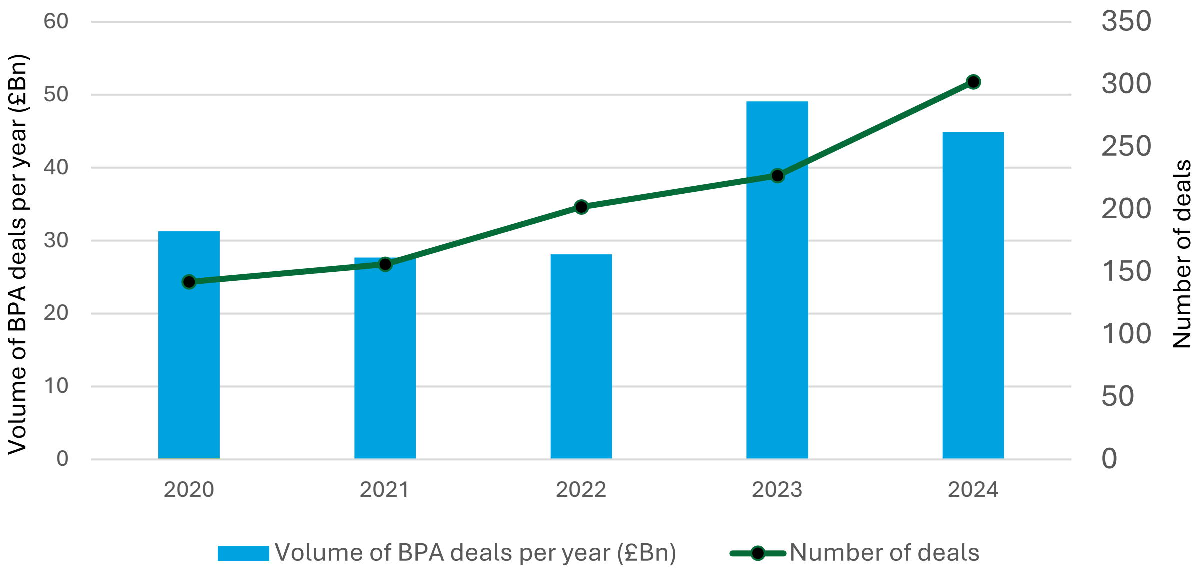
This means that firms should adopt a flexible approach to building a TS offering which they can adapt to an increasingly complex landscape with interconnected offerings and solutions. We expect insurers will be able to deliver TS from April onwards, meaning that firms that want to hit this date have a lot to do to get their TS offerings up and running.

Finally, for all European DC providers, technology and digital support tools, including Artificial Intelligence, will be crucial to improve internal process efficiency, reduce operational costs and integrate data-driven insights into pensions product suggestions (especially TS) at scale *[see the AI and data op-ed for further details]*.

The BPA market: growing pains

The UK BPA market is showing signs of sustaining momentum into 2026. This is partly due to high interest rates contributing to many schemes' improved solvency positions.[95] Since 2022 the market has seen significant growth, and four new entrants, underscoring a strong interest, especially from private capital specialists. The changes to the calculations of the Risk Margin and increased Matching Adjustment (MA) flexibility offered by Solvency UK (SUK) further increased that appeal.

Figure 2: Volume and number of BPA deals in the UK

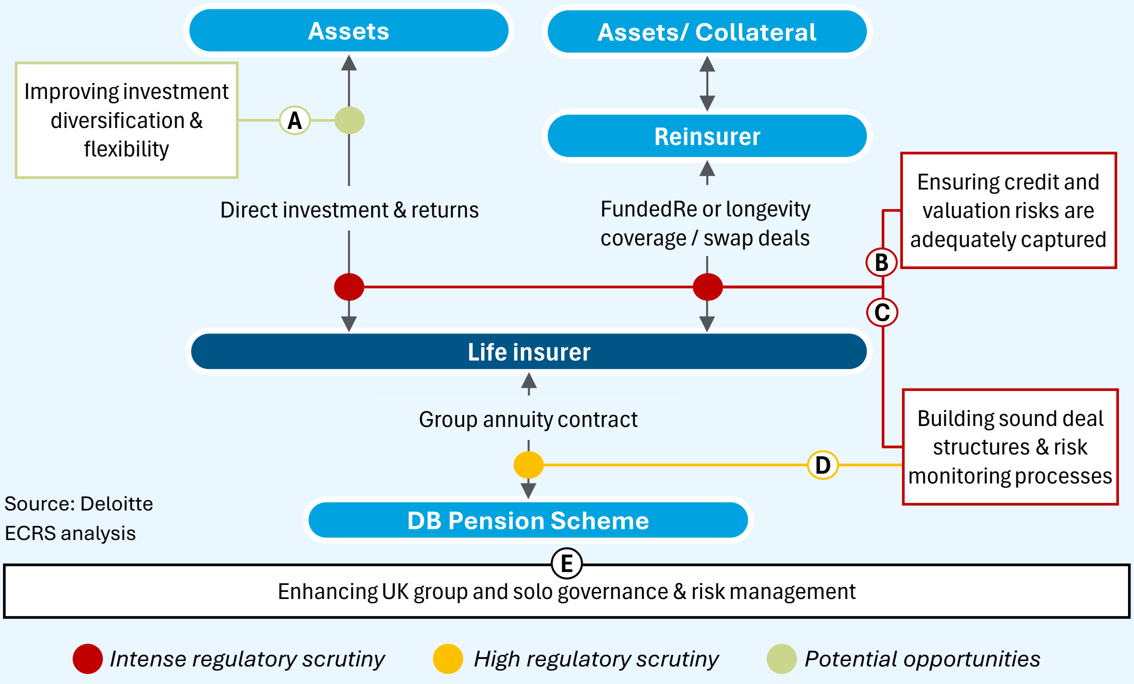


Source: XPS based on media reports[96]

Although the Solvency UK (SUK) reform is now complete, we expect regulation to continue to play a significant role in insurers' ability to access BPA opportunities at scale. The Prudential Regulation Authority (PRA) has reinforced prudential safeguards across the BPA deal chain (Figure 3), especially around credit, liquidity and counterparty default risk management.

Life insurance

Figure 3: Regulatory hotspots across the BPA deal structure (simplified view)



Source: Deloitte ECRS analysis

Examples of additional safeguards introduced by the PRA

The regulatory developments below have been mapped to Figure 3 hotspots. The letters A,B,C, D and E in brackets below relate to specific hotspots in Figure 3.

- Annual MA Attestation stating that the fundamental spreads for assets included in the MA portfolios sufficiently reflect the risks. [E]
- Review and follow-up with individual insurers to highlight areas of variability in their internal **credit risk assessment**. [B]
- New liquidity reporting framework for insurers with first reporting scheduled for 30 September 2026. [C; E]
- Dear Chief Risk Officer letter identifying areas of increasing contractual complexity in BPA contracts, especially around **Solvency Triggered Termination Rights** (STTRs). The PRA highlighted the need for firms to have appropriate risk management processes to tackle it and announced a review of STTR market practices in 2026. [D]
- Roundtables to explore whether the current capital treatment of Funded Reinsurance (FundedRe) exposures captures all relevant risks – which adds to existing expectations to produce a FundedRe recapture plan and collateral policy. [B; C; E]
- Publication of the results of the **Life Insurance Stress Test 2025**, including information on a firm-by-firm basis for the first time. [B; E]
- **The PRA introduced opportunities for firms to broaden the scope of MA investments [A]** including the introduction of highly predictable cashflow assets in the MA Portfolio and the MA Investment Accelerator (MAIA).

Life insurance

In this demanding regulatory environment, three strategic areas will be critical for BPA players:

1. Asset valuation modelling and origination expertise are key priorities

Growing the BPA portfolio requires high levels of capital; and the ability to source high volumes of capital-efficient assets (especially MA-eligible), or to reinsure the acquired business. The PRA is reviewing the appropriateness of the current capital treatment for FundedRe and might propose changes that make it less attractive in future. This points to a market that needs to get better at asset origination and reduce reliance on reinsurance. Almost half of EMEA insurers are looking to increase their exposure to private assets to increase diversification and return on investment,[97] despite concerns from supervisors. But insurers will need to demonstrate they are able to invest safely in these assets.

To this end, firms will need sufficient investment risk monitoring tools to review private asset valuations regularly and adjust their asset/liability management/hedging strategies to reflect any changes in risks. Insurers with private investment expertise are well-placed to leverage opportunities from increasing investment flexibility (SUK/ MAIA).

However, firms will need to innovate to access MA-eligible assets whilst securing funding to back BPA deals.[98] Firms able to assemble teams combining innovative capital structuring, valuation modelling and asset origination expertise, or that partner with firms having expertise in these fields, will be strongly positioned for success in 2026.

2. BPA deals: more transactions and more complexity

We expect the number of deals to remain high this year, driven by buyouts of small- to medium-sized schemes.[99] Strong operational capacity to oversee contracts and pricing expertise will be crucial to remain competitive as some insurers already offer streamlined processes to quote competitively in this segment. We expect this part of the market to continue to offer opportunities, provided insurers can manage rising operational complexity with regards to:

- **Non-standard contractual clauses:** the PRA is concerned about non-standard clauses such as STTRs, and will review firms' handling of these clauses this year. Firms should identify non-standard clauses in place (e.g., deferred premium, residual risk, profit sharing), and understand their aggregate impact on liquidity, MA eligibility and solvency under a stress event. More broadly, firms may also benefit from joining up their solvent exit, FundedRe recapture, and liquidity reporting workstreams to identify risks stemming from their (re)insurance and other contracts.[100]
- **Pricing:** an increasing number of schemes incorporate liability-driven investments, derivative exposures, and private assets in their portfolios, whilst the novation of existing longevity swaps is becoming relatively common as part of the premium paid for scheme buyouts to the insurer. Beyond state-of-the-art valuation tools, insurers will need the right expertise, data, and systems capacity to quote in this segment without significantly deviating from their risk appetite.

3. Meeting regulatory expectations: a rising bar

Regulatory scrutiny of the BPA market is increasing, driven by the rising volume of annuity liabilities it manages. This year firms will need to prepare for new solvent exit planning and liquidity reporting requirements alongside, where applicable, implementing the new MAIA regime and delivering

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attestations and regulatory submissions (FundedRe recapture analysis, MA and internal model attestations).

Risk and governance functions will need sufficient resources to oversee these workstreams and ensure robust senior executive and board approvals. For example, insurers intending to use the new MAIA will need to decide what to do if the PRA does not approve the assets and they need to be taken out of the MA portfolio. Also, firms seeking to originate and invest in complex/private assets may need to review their governance arrangements to reinforce oversight over their valuation models. This may include assessing the suitability of the committee structure and reviewing how potential conflicts of interest are managed *[see the private markets op-ed for further details]*.

The International Monetary Fund, Bank for International Settlements and International Association of Insurance Supervisors have all highlighted the crucial importance of robust risk management in the life insurance sector.[101] Insurers' risk and compliance teams must rise to the challenge and team up with investment, finance and actuarial functions to demonstrate to the PRA that they can be trusted with the pension liabilities of millions of citizens.

Investment management and wealth

A double-edged sword – opportunities and risks

In 2026, EU and UK policymakers will continue to prioritise growth and competitiveness, recognising investment managers (hereafter "firms", encompassing both fund and wealth managers) as critical to both objectives. New measures will aim to boost retail investments (including through private markets (PM)), encourage innovation, and continue a strong emphasis on good customer outcomes. This presents firms with a double-edged sword: significant opportunities alongside notable regulatory risks.

Boosting retail investment

Boosting retail investment, including increasing access to productive assets, is top of mind for EU and UK governments. Whilst regulators are supportive, their priority remains ensuring that safeguards are in place for retail investors. Initiatives such as the FCA's Targeted Support (TS) are likely to offer retail investors access to standard products. Others, such as ongoing Financial Conduct Authority (FCA) PM reviews, aim to ensure that firms' controls over a more complex and risky landscape and products are robust enough for retail investors. Opportunities abound, but firms will need to identify and manage the risks inherent in TS and PM to capitalise on them.

In the UK, TS, described by the FCA as a "once-in-a-generation change", will launch this year. Aimed at fostering a retail investment culture, TS could transform market dynamics, enhance firms' brands, broaden investor bases, and boost assets under management (AUM).

First-mover firms are already designing their products and customer journeys and reviewing their propositions ahead of the authorisation gateway opening in March 2026. Others may take a "wait and see" approach.

To engage with this opportunity effectively, C-suite leaders must prioritise assessing commercial models, regulatory risk, data requirements, and target markets. Commercial model choices include cross-subsidising TS for free at the point of sale, relying on digital scalability, or using TS as a stepping stone to full advice. Wealth managers must also consider their strategic approach to TS-driven consolidation-partnering with major banks offers a larger client base but demands integration and cultural alignment. Robust target market assessments are crucial given TS's scale. Above all, firms must ensure end-to-end processes support Consumer Duty (Duty) outcomes, tailoring communications to promote customer understanding, engagement, and trust.

Investment management and wealth

In another nod to boosting retail investment, in December 2025 the FCA proposed replacing its elective professional test with a wealth-only test for retail investors holding £10 million + in investible assets and an enhanced qualitative test for others. The latter must voluntarily request to opt-up and provide informed consent; firms can only suggest opting up if they reasonably believe the client meets the criteria. This change allows firms to offer a wider range of suitable investments to clients previously restricted by the quantitative test. However, firms must ensure opt-ups align with the Duty and record the rationale and details of the qualitative test. The FCA is also supportive of the UK's "retail investment campaign", a government backed industry-led initiative launching in April 2026 aimed at facilitating a move from saving to investment.

PM investments continue to grow. The amount of capital deployed in PM,[102] including private equity and private credit, has grown substantially over the last 20 years. Current estimates put assets at over $15 trillion globally.[103] Notwithstanding the opportunities, policymakers and industry remain concerned about increasing retail access rapidly without appropriate safeguards. Policymakers will seek to address liquidity, transparency, market stability and investor protection concerns.

In 2026, we expect continued FCA supervisory focus on PM, including valuations (following its March 2025 review of valuation practices), conflicts of interest, and good customer outcomes. While valuations and conflicts are issues affecting all investors, for PM firms entering the retail market for the first time, the Duty will be a significant and arduous uplift.

Smaller firms are finding it challenging to meet the FCA's valuation expectations comprehensively – they could supplement their approach by seeking external support (e.g., third-party valuers). Another challenge is determining when to trigger ad-hoc valuations. In our view, this assessment should factor in the specific industries and jurisdictions that portfolios are invested in. Any expectation or crystallisation of geopolitical risks should be a significant input into this assessment. Firms could also set tolerance thresholds based on external metrics, such as a fall in relevant benchmarks.

> *While valuations and conflicts are issues affecting all investors, for private markets firms entering the retail market for the first time, the Duty will be a significant and arduous uplift.*

We expect the FCA to publish the results of its multi-firm review on conflicts of interest in H1 2026. The FCA will seek evidence that firms have robust frameworks and management information (MI) to demonstrate that they have considered all potential conflicts and can control them effectively.

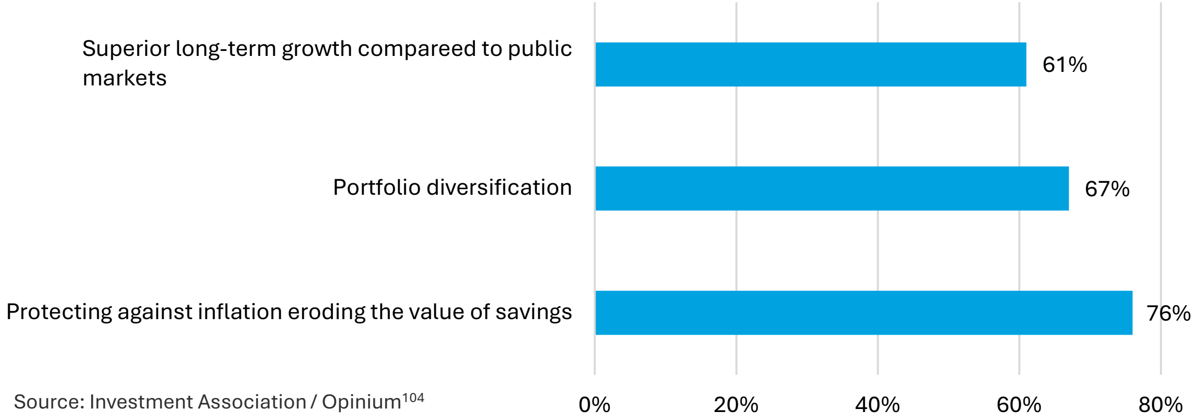
Separately, in its February 2025 supervisory strategy letter for asset managers, the FCA highlighted plans to supervise PM firms' Duty implementation as they expand retail access to their products. Strategically, firms should consider whether the commercial benefits of retail offerings outweigh compliance costs and heightened regulatory risk. Key areas that materially differ for retail investors include product governance and information needs around liquidity, asset classes, and performance horizon.

Investment management and wealth

In the EU, the Savings and Investment Union (SIU), encompassing the Retail Investment Strategy (RIS), aims to facilitate retail flows into productive assets. RIS negotiations, particularly on value for money and inducements, have been challenging, particularly with the EU's new simplification agenda being given greater priority. Tentatively, rules may apply from 2027. Meanwhile, firms should continue work on understanding what "value" means for clients, creating frameworks and determining how the proposed concept of "benefits" compares to costs.

Figures 1 and 2 illustrate the expansion of PM into retail investment activity.

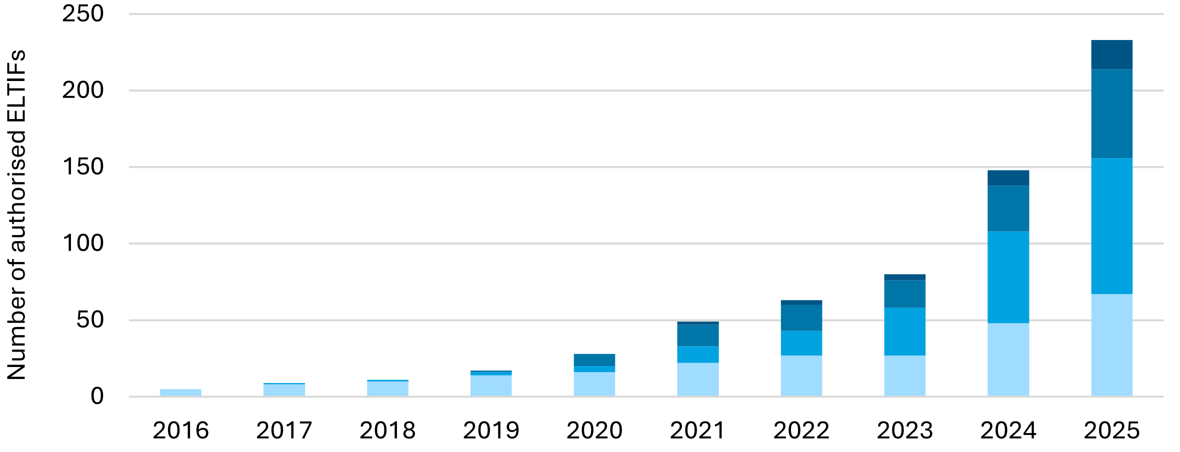
Figure 1: Motivations for investing in private markets



Source: Investment Association / Opinium[104]

Figure 2: Growth in EU ELTIFs

Under the SIU, European Long-Term Investment Funds (ELTIFs) will be a key tool for channelling retail capital into PMs. Significant amendments to ELTIF rules became applicable in January 2024 which made the vehicle more retail friendly. This is likely to be the reason for the spike in authorisations in 2024/2025.



Source: ESMA; data correct as of 12/11/2025[105]

Investment management and wealth

All firms will need to consider how innovation can support offerings. Artificial Intelligence (AI) is expected to be a key enabler in delivering TS, particularly through data analysis, market segmentation, and scaling personalised content for investors. In parallel, firms must understand and manage the risks AI exacerbates – including data and algorithmic bias – that could lead to investor harm.

Supervisors will expect AI use in TS to be governed as a material risk, with clear accountability, explainable decisions, and robust evidence of positive customer outcomes. This will require strong data governance, proactive bias detection, transparent disclosure of AI use to retail investors, and access to a human advisor where concerns arise. Ongoing effective model testing and continuous monitoring will also be essential to ensure AI systems can identify vulnerable customers and respond effectively to changing circumstances *[see the AI and data op-ed for further details]*.

Finally, market momentum and increasing regulatory clarity will prompt firms to reassess their digital asset strategies in 2026. While fund tokenisation will remain a common focus, firms will increasingly explore unbacked digital asset offerings (e.g., Bitcoin). The FCA's move to allow retail investors indirect exposure to unbacked digital assets via exchange traded notes (ETNs) opens new product opportunities. Global AUM in crypto-based exchange traded funds increased from $40 bn in 2022 to $190 bn in 2024, underscoring investor appetite.[106]

However, it also marks the Duty's most substantive move into the inherently volatile world of unbacked digital assets. A critical focus is identifying appropriate target markets. One approach is to define a "negative" target market – identifying retail customers whose needs, characteristics, and objectives are incompatible with specific products.[107] Bitcoin ETNs, for instance, may not suit individuals with limited capacity to absorb financial losses.

Firms should also consider their fee structures. Where fees are tied to a percentage of the underlying asset's value, regular reviews and adjustments may be necessary. For instance, a static percentage-based fee could become disproportionate if the price of the underlying asset rises in the medium term *[see the digital assets and payments op-ed for further details]*.

Ongoing emphasis on good customer outcomes

EU and UK policymakers' drive to reduce and simplify regulations should not be mistaken for a reduced emphasis on good customer outcomes. There will be an ongoing strong emphasis on ensuring that customers receive suitable advice, receive adequate information about risk and returns to make effective decisions, and value for money is appropriately considered.

The FCA's consumer composite investments (CCI) regime, finalised in Q4 2025, aims to streamline the UK Undertakings for Collective Investment in Transferable Securities and Packaged Retail and Insurance-based Investment Products regimes but, even in its new form, is still considered onerous by the industry.

Manufacturers face significant operational changes due to the need to design Duty-compliant disclosures without templates and revised cost, risk, and performance calculations. Challenges also include increased information sharing and distributors having to develop a communications and disclosures framework compliant with the Duty. Firms that enhance customer understanding through high-quality communications and disclosures are best placed to benefit from CCI.

Investment management and wealth

Geopolitical risk

In 2026, volatile geopolitics will mean that liquidity management will remain a priority. The FCA's March 2025 multi-firm review highlighted how wholesale firms managed liquidity during stressed geopolitical and market events. The lessons apply to investment managers, e.g., integrating liquidity risk considerations with market, credit and operational risks, and conducting stress tests that genuinely reflect their risk exposures.

Firms in both the EU and UK should ensure robust governance in selecting liquidity management tools suited to their investor base, asset classes, jurisdictions, and strategies. This multi-faceted approach requires continuous oversight.

More broadly, firms should consider the potential for geopolitical risk to lead to retail investor harm. European Securities and Markets Authority flagged that heightened risk environments may result in retail investors making poor trading decisions due to information overload, misinformation exacerbated by social media, or trading gamification.[108] Firms should consider the best channels and cadence of communication to inform investors about portfolio impacts and protective measures.

Climate and nature risk

Firms also face rising climate- and nature-related risks. Policymaking on climate risk in 2026 will primarily focus on reporting and disclosure requirements. For entity-level reporting, negotiations on the Corporate Sustainability Reporting Directive (CSRD) were finalised in December 2025, with a clear direction: a significant reduction in firm scope and delayed application for those not already reporting.

The UK Sustainability Reporting Standards (SRS) are expected to be finalised early this year, after which the FCA will consult on the application of the requirements for UK listed firms – likely specifying reporting from 2028 (for periods starting 1 January 2027). The SRS will enhance the existing Task Force on Climate-related Financial Disclosures and will cover strategy, transition plans, and financed emissions. Additionally, in 2026, firms with AUM between £5bn and £50bn will prepare their Sustainability Disclosure Requirements entity-level sustainability risk disclosures for reporting on 2 December 2026, with a crucial element being the rationale for disclosed risks.

Many firms will no longer be in scope of CSRD or will not be in the first wave of UK SRS reporters. However, given the benefits of being able to cater to stakeholders' data requests, firms may decide to continue to invest in obtaining and providing Environmental, Social and Governance data even though timelines for reporting are being pushed back and requirements simplified.

Despite delays and amendments to regulations, firms need to continue to manage changing climate and transition risks in portfolios proactively.

Final thoughts

Opportunities for firms abound as the UK and EU promote retail investment in productive assets. However, success will require demonstrating to clients and regulators that their growth ambitions are matched by robust controls and risk management.

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88. The Pension Schemes Bill includes a transitional provision allowing multi-employer DC pension schemes which are not expected to reach £25bn in AUM by 2030 to benefit from a five-year conditional extension. Under this pathway, a scheme must have at least £10bn in its main default arrangement by 2030 and demonstrate a credible plan to reach the £25bn target by 2035.

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