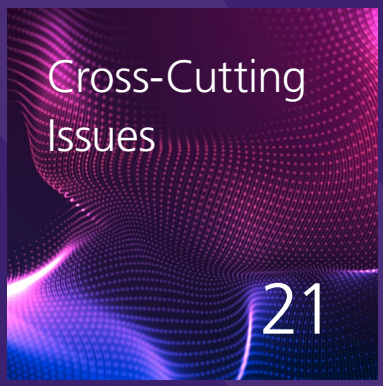
CMS
law·tax·future

Financial Services Horizon Scan 2026

January 2026

What's on the horizon in 2026?



Introduction

Welcome to our Financial Service Horizon Scan 2026, a fast, easy to navigate resource for legal and business leaders in banking, insurance, payments, fintech, and investment management.

Change across the financial services sector continues to accelerate. Evolving regulatory frameworks, rapid advances in technology, more assertive supervision, and growing cross-border complexity will define the landscape in 2026. Organisations should anticipate continued regulatory reform, expanding operational use of AI and data, developments in payments and digital assets, and heightened expectations around resilience, governance, and individual accountability.

This Horizon Scan brings together insights from our specialists across banking, insurance, fintech, payments, and asset management. Each section highlights the most significant legal and regulatory developments for that area, along with practical implications and recommended actions. We also examine cross-sector themes to provide a clear, comprehensive view of the risks and opportunities shaping the year ahead. In this publication, you will find:

— concise summaries of regulatory updates and market trends;
— independent analysis to guide decision-making;
— sector-focused insights on innovation, compliance, and strategic developments;
— quick access to deep dives and practical guidance.

How to use this Horizon Scan: start with the section most relevant to your organisation, then use the timelines and cross cutting themes to contextualise and sequence actions.*

We hope this resource supports your planning for 2026, helps keep your teams informed, and offers useful perspectives on what is ahead. If you would like to discuss impacts on your business or receive updates, please contact your usual CMS adviser or any of the authors in this publication. Our details are below.

* This publication provides general information only and is not legal advice; regulatory timelines and scope may change.

What's Ahead in 2026: Asset Management

2026 is likely to be a very busy year for the asset management industry in the UK and EU from a regulatory perspective, as there are a number of significant regulatory developments that will unfold over the year. We have summarised what we view as the 6 most impactful developments below, and explained their practical impact

AIFMD 2: New rules for open-ended funds and lending

Most provisions of AIFMD 2 are set to be applied by EU member states from 16 April 2026. AIFMD 2 introduces a number of changes to the EU AIFMD framework for non-UCITS funds, but most impactfully it:

— introduces new requirements for open-ended funds to use liquidity management tools from a defined regulatory list;

— restricts the structure of loan-originating funds (i.e. credit funds), so that they generally must be closed-ended unless they can meet specific liquidity risk management criteria, and limiting their use of leverage;

— introduces new rules for lending by funds generally, including requiring enhanced policies and procedures, requiring "risk retention" and preventing "originate to distribute" strategies, concentration limits, and restrictions on lending presenting conflicts of interest.

Practical impact

Fund managers need to be prepared to comply with these new rules, with credit funds being particularly impacted. Whilst grandfathering exists (until 2029, or indefinitely in some cases) with respect to some obligations for funds constituted and loans originated prior to April 2024, newer funds generally need to comply, and the complexities of grandfathering means it is not a get out of jail free card. For instance, whilst grandfathering applies to leverage and concentration limits, excess leverage / concentration must be "crystallised" from implementation.

AIFMD Liberalisation in the UK

In 2025, HM Treasury and the FCA consulted on the replacement of the AIFMD derived regime in the UK with a new AIFM regime tailored to the UK market and regulatory drivers. The UK government has indicated that draft legislation on the new UK AIFMD regime, alongside an FCA consultation, will be published in **spring 2026**.

The key takeaways from the consultations so far are:

— the government aims to streamline the regulatory framework for AIFMs to remove unnecessary regulation and foster growth;

— it is proposed that the regime will apply in tiers based on size – with less prescriptive/onerous rules applying to smaller AIFMs, and only larger AIFMs (with above £5bn in NAV) being subject to the full scope of prescriptive rules similar to the current AIFMD derived regime.

Practical impact
Fund managers should monitor the development of the new UK regime, as it will have a significant impact on fund managers operating in the UK. In particular, smaller fund managers may be put in a much more favourable regulatory position than currently.

Replacement of PRIIPs with CCIs

The current regime for retail investment product disclosures (in particular the PRIIPs regime) has been widely criticised for its complexity, and disclosures that are not necessarily helpful to retail investors. The UK has therefore been working on replacing this regime with a new domestic regime for "consumer composite investments" (CCIs). Broadly, this aims to replace the PRIIPs regime with a less prescriptive, and more principles based disclosure regime.

HM Treasury and the FCA consulted on the new regime over the course of 2022-2025, with the regime now set to apply from 6 April 2026 (as the start of an optional transition period), and in full from 8 June 2027.

Practical impact
Whilst the basic scoping principles are similar to the current regime, firms will need to adapt to the significantly different disclosure regime. Taken together, the final CCIs rules and move away from PRIIPs materially shifts the UK disclosure regime from revolving around prescriptive form to outcomes. Firms will have significant discretion in design and layering, but that flexibility is paired with precise, comparable metrics on costs, risk and performance. This new discretion, while welcome, will require firms to make their own judgment calls about many aspects of disclosure. This will require robust documentation of methodologies and judgments.

New Advice Option – Targeted Support

The "advice gap" – where significant retail investors receive less financial advice than they need – has been noted as a longstanding problem. The cost of offering full, personalised "investment advice" can be prohibitive due to the significant regulatory burdens imposed. It may also not be practically deliverable for many retail investors.

As part of efforts to address this, in summer 2025, HM Treasury published draft legislation on the new regulated activity of "targeted support" and the FCA published its final regulatory rules in December 2025. This essentially aims to allow for advice to be given to "customer segments", rather than on a truly personalised basis. For instance, a firm might suggest to a customer that "people like them" (based on age, income, investment horizon etc.) should invest in a particular product.

Practical impact
This provides a new potential business opportunity to firms in the asset management space. Firms could potentially use this as a new "mass advice" option, to bridge the gap between generic guides and personalised advice, or to deliver advice through fintech platforms. However, there is a corresponding risk of getting advice wrong at scale, with the accompanying complaints and redress implications that could flow from this. Firms will therefore have to consider their approach to this new option carefully.

SFDR Overhaul

In November 2025, the EU Commission published its proposal to overhaul the Sustainable Finance Disclosure Regulation (SFDR). The proposal would effectively move SFDR from being a "disclosure regime" (i.e. if a firm makes sustainability claims about a financial product it must make disclosures to explain and substantiate these claims) to being more of a "labelling regime" (i.e. a financial product must meet specific criteria in order to obtain a particular sustainability "label"). The proposal makes some allowance for sustainability disclosures for products that do not fall within the prescribed "labels", but such products would be subject to stringent marketing restrictions, and the sustainability aspects would need to be of an ancillary nature. This marks a major change from the current regime, and would result in many financial products that currently position themselves as "sustainable" being unable to do so.

Practical impact
The proposal is subject to negotiation with the EU Parliament and Council, and this is expected to progress over the course of 2026. Firms should monitor any changes in the proposal, as any efforts to "future proof" existing products while the current regime still applies, would need to be informed by the final position adopted on the details of the overhaul.

ESG Ratings Regulation in the EU and UK

Both the EU and UK are moving towards regulating ESG ratings in line with other financial services (such as credit ratings). The EU ESG Ratings Regulation will start applying in the EU from 2 July 2026, and the UK has published its legislation and an FCA consultation on the rules, which are due to apply from 29 June 2028.

Whilst these pieces of legislation are primarily aimed at firms that actively position themselves as ESG ratings providers – the definition of what counts as an ESG rating is necessarily broad under both regimes. So other types of firms that may produce ESG scores, metrics or other analyses (including just on governance factors) may find themselves inadvertently caught by these regulations. Whilest potential exemptions can be used, they are not always available, and can come with additional compliance burdens. Both regulations can also apply to overseas ratings providers.

Practical impact
Firms actively positioning themselves as ESG ratings providers should prepare to comply with these regimes. Other firms should make sure they are not inadvertently producing ESG ratings, and to the extent they are, ensure that their business can fall within the relevant exemptions.

What's Ahead in 2026: Banks and Investment Firms

Ever increasing divergence between the UK and EU frameworks will continue to be a key part of the regulatory landscape for internationally active banks and investment firms in 2026.

In parallel, the drive for growth and international competitiveness will perhaps mark the high watermark of post-financial crisis regulation in various areas, including capital and reporting requirements for banks and investment firms. However, significant reforms are on the horizon and 2026 is a crucial year for example for non-EU firms affected by upcoming EU rules on cross-border deposit-taking, lending and other core banking services under the Sixth EU Capital Requirements Directive (known as "**CRD6**").

The overlap between traditional financial markets and digital assets markets will only continue to grow. We have recently advised on the launch of the UK's first tokenised authorised fund and more firms are exploring tokenisation of existing product ranges and the use of tokenised securities as collateral. Artificial intelligence and the regulatory focus on reliance on third party service providers will continue to be major themes.

We have summarised what we view as the most impactful developments below, and explained their practical impact.

Pursuit of growth and international competitiveness should continue to decrease the compliance burden, but will lead to increasing regulatory divergence between the UK and EU

A new focus on growth and international competitiveness were trumpeted by UK and EU regulators at what seems to have been every opportunity in 2025. We are starting to see that translate into practical, real world impacts, with further delays to the implementation of the final elements of bank capital rules known as Basel 3 having been announced in the UK and EU, and with further reforms likely on the horizon.

Investment banks and other users and administrators of indices will experience a tangible reduction in the compliance burden, following the streamlining of the EU's Benchmarks Regulation with effect from 1 January 2026. The UK and EU continue to recalibrate the MiFID II pre- and post-trade transparency regime, with important implementation milestones to come in 2026.

Further work is required in relation to transaction reporting, with ongoing reviews in the UK and EU. Affected firms may be keen to take the opportunity to press for simpler and better calibrated requirements, particularly in light of the FCA's first fines for breaches of the MiFIR transaction reporting regime in 2025.

In 2026, we may also (finally) see the launch of a European consolidated tape, with the EU most likely to authorise a provider for the bonds tape first. The launch of the UK and EU consolidated tapes will be a major milestone for European capital markets, giving domestic and international audiences an easily accessible view of the depth and liquidity of equity, fixed income and eventually derivatives markets.

Since the financial crisis, prudential regulators have (slowly) sought to better calibrate the international Basel standards for smaller banks and for investment firms. 2026 will be an important year for affected banks to prepare for the introduction of the new framework for "small domestic deposit takers" ("**SDDTs**"), which is due to enter into force on 1 January 2027.

The FCA's new, slightly simplified rules for MIFIDPRU investment firms will enter into force in April 2026, removing the need for such firms to trawl through the onshored UK Capital Requirements Regulation, instead being able to consult the applicable rules in one place, in the FCA Handbook. The FCA plans to consult in H2 2026 on bespoke market risk capital requirements for specialised trading firms (in particular, electronic liquidity providers and market makers), with a view to improving liquidity.

It remains to be seen to what extent and how long it will take for these reforms to translate into real world impacts for financial markets.

2026 will be a crucial year for firms affected by major EU market access reforms, including UK and other non-EU based internationally active groups

CRD6 and, in particular, the introduction of the so-called Article 21c requirement for certain third country undertakings providing core banking services to establish a regulated branch in the EU is set to apply from 11 January 2027. This is a major development for UK and other non-EU firms currently providing deposit-taking, lending and other core banking services to EU customers.

To the extent they have not already done so, internationally active banking and finance groups must assess how their business models will be affected by the new regime and start to finalise and operationalise their plans for compliance. EU and third country regulators increasingly expect firms to be able to explain in detail how they will be impacted by CRD6 and what active steps they are taking to prepare for it.

A number of jurisdictions are yet to deliver their proposed implementing measures. Through our international network of offices with extensive coverage in the EU, we will be continuing to track developments as national laws are finalised and it becomes clearer how the requirement and the exemptions from it will be applied in practice. For further information on the third country branch requirement under CRD6 and how your firm can prepare for it, please see our recently updated client note.

Derivatives market participants are likely to be affected by ongoing EMIR 3.0 implementation, in particular with respect to the active account requirement, which mandates certain EU counterparties to maintain at least one account at an EU central counterparty and to clear a representative number of trades through that account.

The legislative text of the EU's Retail Investment Strategy is on the cusp of being finalised, with the potential to have a significant impact on UK-based product manufacturers with EU distribution networks. Please see our recent client note on the potential implications. Firms should therefore anticipate reviewing the detail of the new rules early next year. Practically, this is likely to then translate into a review of any potentially affected governance and distribution arrangements.

Artificial intelligence, digital assets, operational resilience and third party service providers

The Bank of England and the UK's regulators continue to have a laser focus on the emerging risks from the increasing use of artificial intelligence, including its impact on firms' operational resilience and reliance on third parties. The EU is continuing to embed the AI Act, though the EU level regulators seem to be taking a similar approach to the UK regulators, so far not rushing to introduce sector-specific regulation for AI and instead relying on the existing, technology neutral rulebooks. In a roundtable event at CMS in 2025, we were told by the FCA that it is now "technology positive" on AI, and 2026 will see the FCA engage with a second cohort of firms on its AI testing initiative.

In recent years, operational resilience has been elevated to on par with financial stability and we continue to see a cultural shift towards viewing operational resilience as a strategic business imperative rather than just a regulatory compliance requirement. In 2026, the UK and EU will continue to implement their operational resilience and third party regimes, with the UK expected to designate critical third parties and the EU now engaging with the third parties it has already designated.

There will be ever increasing overlap between traditional financial markets and digital assets markets. Many traditional firms are continuing to explore tokenisation of their existing product ranges and the use of tokenised securities as collateral, and digital assets firms are rapidly expanding their offerings to include traditional investment services. At the end of 2025, the FCA published its suite of proposed rules for regulating cryptoasset activities, which will be of general interest. For an overview of the new regime, please review our client note on this topic.

What's Ahead in 2026: Payments and Fintech

2026 is set to be a particularly busy year in the payments and fintech space in the UK, with extensive developments across the entire ecosystem – whether it is the wholesale payments infrastructure underpinning the payments ecosystem, new requirements on payment firms providing retail payment services, open banking developments which aim to provide further competition in the market and choice for consumers, or a whole new regime for the regulation of cryptoassets. Below, we outline the most impactful developments and their practical implications

Wholesale payments

Next generation retail payments infrastructure

The UK National Payments Vision is moving into the delivery stage, with the Payments Vision Delivery Committee (**PVDC**) (a committee chaired by HM Treasury with senior representatives from the Financial Conduct Authority (**FCA**), the Payment Systems Regulator (**PSR**) and the Bank of England (**BoE**)) publishing its strategy at the end of 2025 for the future retail payments infrastructure in the UK, based on a collaborative public-private model underpinned by five strategic outcomes:

- greater choice of innovative and cost-effective payment options that meet consumers' needs (in particular account to account payments);
- payments must operate seamlessly as part of a diverse multi-money ecosystem, with interoperability between new (e.g. stablecoins) and existing forms of digital money;
- consumer and business trust in the protection of payments from fraud / financial crime;
- fair, transparent and non-discriminatory access to the payments infrastructure; and
- operational and financial resilience of the payments infrastructure.

The PVDC will also publish the Payments Forward Plan in 2026 which will set out a sequenced plan of initiatives across the payments ecosystem including initiatives in both retail and wholesale payments, and the role of digital assets.

Additionally, 2026 is likely to see a real ramp up of the work of the new industry owned delivery company which is being established with responsibility for procuring and funding the build and rollout of the infrastructure.

Practical impact
These developments will have a knock-on effect across the whole payments ecosystem. The strategy offers a clear strategic direction, however, the operational details (particularly regulatory changes, governance arrangements, and implementation timelines) are still being finalised. Therefore we would encourage stakeholders in the payments ecosystem to engage and work with regulators and the industry generally in 2026 to shape the future of the retail payments infrastructure.

Abolishing the Payment Systems Regulator

On 11 March 2025, the UK government announced its decision to abolish the PSR as part of a broader initiative to reduce regulatory burdens and stimulate economic growth. This will reduce the regulatory burden for payment systems and payments service providers of having to deal with two regulators. Its functions will be integrated into the FCA under the Financial Services and Markets Act 2000, with powers broadly equivalent to those currently held by the PSR.

Practical impact
Whilst practical implications may be limited, given that the proposal is (a) not to broaden the categories of persons caught by the payment systems regulatory regime and (b) for the FCA's powers to be broadly equivalent to the PSR's powers, it will be interesting to see how the FCA aligns the PSR's current policy objectives focusing on competition and innovation within its own objectives. We would expect to see further detail on this in the Payments Forward Plan in 2026.

Once implemented firms in scope will also need to transition from being dual regulated by the FCA and the PSR to engaging solely with one regulator (i.e. the FCA).

Retail Payments

Changes to the Payment Services Regulations

The Payment Services Regulations 2017 (**PSR**s) are being amended by the introduction of new rules requiring payments firms to amongst other things give at least 90 days' notice before terminating a framework contract (up from the current two months). These enhancements apply to framework contracts for payment services agreed on or after 28th April 2026.

Practical impact
Payments firms should consider and update their existing contracts / internal policies to reflect the new requirements (including how they will support customers in the 90 days' notice period in line with their obligations under the Consumer Duty where applicable).

Safeguarding reform for payments and e-money firms

The FCA published its final "interim" rules setting out changes to the safeguarding regime for e-money and payments firms which will come into force on 7 May 2026. These interim rules (which will be included in a new CASS 15) support the existing legislative safeguarding provisions in the Electronic Money Regulations and PSRs with the goal of improving consumer protection. There are three categories of changes that will be introduced under the interim rules, which are: (i) improved books and records, (ii) enhanced monitoring and reporting, and (iii) strengthening elements of safeguarding practices.

The FCA had initially intended to introduce a second stage of proposed reforms (the "**end state regime**") which would replace the safeguarding requirements of the EMRs and PSRs with a new "CASS" style regime. However, following extensive industry feedback, such proposals have been paused until the effectiveness of the interim rules have been reviewed at a later stage.

Practical impact
Whilst some of the more challenging changes in the end state regime won't be coming in imminently, this is nevertheless a big and long-awaited step in the payments landscape and for any firm dealing with payments / e-money firms in their day-to-day business. Firms in scope should revisit their processes to ensure that they are compliant with the interim rules and monitor further developments on the end state regime.

Open Banking

UK transition to a long term regulatory framework

The UK is moving open banking towards a long term regulatory framework, which will be overseen by the FCA. The FCA published its Feedback Statement (FS25/4) last year on the design of the "Future Entity" for open banking, setting expectations for its role as the standard setting body and how it would sit alongside / enable commercially operated open banking schemes. Following the passing of the Data (Use and Access) Act which established a framework for the sharing of customer data held by payment service providers with authorised third parties, we expect that the legislation setting out the new regulatory framework can and will be put in place imminently in 2026. We also anticipate secondary legislation setting the path for supporting the rollout of commercial variable recurring payments to be introduced in 2026.

Finally, the FCA is also expecting to publish its roadmap for open finance by March 2026. To support this work, ahead of launching the open finance roadmap and strategy, the FCA has announced a major new partnership with KPMG and Europe. It has also launched two TechSprints, focusing on mortgages and finance for SMEs.

Practical impact
Firms should:
- engage with the regulators and the industry to shape developments in this space (particularly around commercial variable recurring payments);
- monitor the developments closely; and
- start thinking about amendments to their existing processes and policies in light ofthe potential changes.

Cryptoassets

New cryptoasset framework

On 15 December 2025, the UK government published the draft legislation (Draft Cryptoasset Legislation) that will implement the new cryptoasset regulatory regime in the UK, which will enter into force on 25 October 2027. Cryptoassets will be brought into line with the standards that apply to mainstream financial markets, with certain differences and with the FCA gaining extensive rulemaking and enforcement powers.

In particular, new regulated activities were introduced, and the territorial scope of the new regime will extend to overseas entities to the extent that they provide in-scope services (other than issuing) to UK consumers. Further details could be found in our LawNow article here.

Practical impact

While the implementation date of the new regime is 25 October 2027 (with conditional transitional pathways), timely authorisation and robust controls are essential. Immediate priorities for firms are to map in scope activities (including cross border reach) and consider re-designing their operational and practical frameworks, taking into account that many firms will either be servicing customers offshore or having a more limited framework in place that complies with the UK's money laundering requirements only.

International firms in this space should start considering the proposed requirements and how they intend to structure their UK business models be it through a subsidiary, branch and subsidiary, or through UK intermediaries.

FCA crypto roadmap

The FCA has issued its Crypto Roadmap, setting out the trajectory for FCA rules for the cryptoasset sector once the sector becomes fully authorised, noting in particular that the cryptoasset sector will be subject to full prudential regulation (see our summary here).

Discussion papers and consultation papers which were issued as part of the Crypto Roadmap in 2025 covered:

- **Admissions & disclosures** – the FCA proposed to largely align the admissions & disclosures rules to the UK's existing prospectus regime for traditional transferable securities;
- **Market abuse** – firms (including intermediaries) will need to comply with a bespoke market abuse regime;
- **Trading platforms, intermediation, lending and staking** – the FCA has set out detailed requirements for firms, including intermediaries;

— **Prudential rules** – firms will need to meet certain capital requirements as part of the new regime which will be calculated on an individual and group basis; and
— **Conduct obligations** – firms to apply full conduct rules including conduct of business rules, operational resilience, the senior managers regime and financial crime.

In 2026, we expect the final Policy Statements to be released and we have now had a further consultation paper on consumer duty, product governance, settlement responsibilities for trading platforms, client categorisation rules, safeguarding requirements, general conduct requirements, advertisements and financial promotions, and cross-cutting reporting requirements. We have also had draft guidance to be issued by the FCA on location requirements and how firms should decide whether they should be opting for a subsidiary or subsidiary and branch model.

Practical impact
Firms should:
— engage with the regulators and the industry to shape developments in this space;
— start mapping their businesses against the draft rules proposed (even though they are not yet final); and
— keep abreast of new papers, particularly those relating to the consumer duty and conduct requirements. International firms should pay particular attention to the guidance on location and authorisation.

BoE regime for systemic stablecoins

Notably, the potential entities who may be caught by the BoE's regime are not limited to stablecoin issuers and could include systemic service providers, or those entities providing essential services to a systemic payment system or systemic service provider. A summary of the key proposals and areas to work through can be found in our Law Now.

The consultation paper closes on 10 February 2026, with the BoE's rules expected later in the year. In 2026, the BoE will also issue supporting guidance, publish and consult jointly with the FCA on the detailed joint regulatory framework, publish a specific supervisory approach for systemic stablecoins and consult further on the detailed design of the safeguarding regime for in-scope firms.

Practical impact
Firms should:
— engage with the BoE and the industry to shape developments in this space;
— start mapping their businesses against the proposals (even though they are not yet final); and
— keep abreast of new papers from the BoE.

What's Ahead in 2026: Insurance

2026 is set to bring a fresh wave of regulatory change for the insurance sector. While firms will continue to navigate an increasingly complex supervisory environment, the Government's growth agenda – backed by active engagement from the regulators – creates meaningful opportunities for innovation and strategic development. This article highlights the key legal and regulatory developments expected to shape the insurance market in 2026 and outlines the areas likely to have the greatest impact on insurers in the year ahead.

Consumer Duty focus for the next year in the insurance sector

Embedding the Consumer Duty remains a priority for the FCA in 2026 across multiple sectors; the insurance sector is no exception:

— As part of supporting firms to deliver good outcomes under the price and value outcome, the FCA is undertaking two market studies relevant to the insurance sector, the Pure Protection Market Study and the Premium Finance Market Study, for which an interim and final report, respectively, are expected to be published during Q1 2026; and

— The FCA remains committed to sharing its views on good and poor practices. The outcome of a review on claims handling arrangements employed by a sample of home and travel insurers has already been published. Similar reviews will continue in 2026 covering products and services, outcomes monitoring, and consumer understanding, as well as further claims handling work.

Practical impact

Firms should carefully review ongoing publications from the FCA concerning the implementation of the Consumer Duty and its expectations. Whilst the regulator has reduced formal enforcement, supervisory engagement has intensified and the FCA will intervene where firms fall below expectations. This is particularly true in the insurance sector where certain rules around price and value have been in place since 2018, and where the FCA is facing external pressures to improve the market (e.g., via the Which? super-complaint).

Growth Agenda: Captive Insurers, ISPVs, and Alternative Life Capital

The end of 2024 and into 2026 has seen an explosion of HMT and PRA reform initiatives in the insurance capital space. This is aligned with the Government's Growth Agenda aiming to promote innovation and the competitiveness and attractiveness of the UK insurance sector:

— In July 2025 new rules for Insurance Special Purpose Vehicles (ISPVs) came into force. Among other things, the new regime allows ISPVs to: count retained realised investment returns to cover the aggregate maximum risk exposure; enter into more than one contractual arrangement without being registered as Protected Cell Companies (PCCs); and make use of grace periods in relation to the requirement to be 'fully funded at all times'.

— Separately HMT's responses to consultation on the UK Captive Insurer regime in July 2025 concluded that a reformed regime should include proportionately lower capital requirements for captives and streamlined regulatory processes and reporting requirements. HMT also proposes that PCCs should be permitted to be authorised as captive insurers. The PRA and the FCA intend to consult jointly in summer 2026 on the detail of a new captive insurer regime, and target implementation in mid-2027.

Despite the PRA reiterating in these consultations its previous policy that captives and ISPVs are not suitable vehicles for life risk, the PRA signalled possible movement in a speech in September 2025, following this up with the publication of a Discussion Paper on Alternative Life Capital in November 2025. This outlines the PRA's thinking on potential policy changes that could allow life insurers to transfer defined tranches of risk to the capital markets, including using domestic ISPVs and reinsurance sidecars, which are currently not attractive or workable. It also sets out six 'alternative life capital principles' the PRA will consider when reviewing any proposed transactions and their impact on the insurer. The PRA invites comments until 6 February 2026.

Practical impact

The Government and the PRA are pursuing multiple, complementary reforms to increase regulatory flexibility and encourage innovation. In 2026 insurers are likely to explore potential opportunities and solutions afforded by the new rules. Life insurers involved in the annuities and BPA markets will closely follow – and respond to – the PRA's Alternative Life Capital work, given its potential to change domestic capital structuring options.

Interactions between pensions and insurance

Pension policy and regulation in the UK is evolving to address retirement income challenges facing a generation with limited DB coverage and declining state support. Key aspects of this which will impact the life insurance sector throughout 2026 include:

— The FCA is reviewing its regulatory approach to reflect the shift from DB to DC pensions and the complexity of post-pension freedoms choices. Focus areas include digital tools, pension transfer processes, and overhauling SIPP rules. A consultation paper on this topic is due at the end of 2025.

— A new value for money ("VFM") framework will introduce the publication of key metrics, public disclosures of VFM assessments, and a RAG rating system.

— The FCA proposes a new regulated "targeted support" service, enabling firms to offer tailored, non-advised guidance to help consumers make better pensions and investment decisions. This is intended to help to close the advice gap and improve outcomes under the Consumer Duty framework.

In addition, increased innovation within the market is leading to the development of new solutions:

— Competitive pressures within the bulk purchase annuity market are intensifying as funding levels improve and new entrants target smaller transactions. This is driving innovations, such as with-profits bulk annuities, which will further diversify offerings, likely tightening pricing margins and accelerating de-risking strategies.

— Hybrid solutions like "flex first, fix later" are gaining traction, combining drawdown flexibility with later-life annuitisation. These solutions can balance investment growth, longevity risk, and cognitive decline considerations, aligned with regulatory emphasis on suitable retirement options.

Practical impact

UK life insurers and pension providers must innovate in product design and embrace technology to meet evolving consumer needs. In doing so, however, firms must remain cognisant of ongoing Consumer Duty obligations and ensure that distributors are provided with the training and tools required.

Solvent exit planning for insurers

The new Solvent Exit Planning regime requires insurers to prepare for a solvent exit so that it can cease insurance business in an orderly way while remaining solvent. The key new requirement is to carry out a 'solvent exit analysis' (SEA) and produce a living document providing a credible playbook for how a solvent wind down would be achieved in different scenarios, including at different points along the curve of deteriorating financial circumstances. There are also requirements to produce a detailed 'solvent exit execution plan' building on their SEA when a solvent exit becomes a real prospect.

The rules are set out in a new Preparations for Solvent Exit Part of the PRA Rulebook and Supervisory Statement SS11/24 'Solvent exit planning for insurers' which in-scope insurers will need to comply with by 30 June 2026.

Practical impact

This is a step change in the level of formal exit planning required under PRA rules which are currently lighter in this area compared to the banking regime. One of the most challenging aspects for firms will be the requirement to define its internal triggers ('solvent exit indicators') that inform when to initiate a solvent exit, positioned between business-as-usual and financial distress. Processes and governance around the SEA will be key. Additionally, assurance (internal or external) of the SEA is required ahead of 30 June 2026, which will need to be factored into implementation timings.

It is also worth noting that these requirements arrive alongside new liquidity reporting, enhanced stress testing, funded reinsurance limits and Solvency UK reforms, creating a compressed prudential timetable that will test board capacity and operational agility.

Innovation and AI in insurance

The EU AI Act has generated significant attention, establishing a risk-based approach to the regulation of AI which will impact insurers operating cross-border with the EU. By contrast, the UK is not currently pursuing sector-specific AI legislation. Instead, the government has adopted five cross sector AI principles, with sectoral regulators, including the FCA and PRA (the "Regulators"), responsible for their implementation. Similarly, there are currently no AI specific FCA or PRA rules, and the Regulators consider the existing framework sufficient to mitigate AI risks. In particular, firms must have regard to proportionality and consumer protection, and map AI use to the existing regime, applying high level principles on governance, risk management, and conduct.

Whilst the Regulators recognise the risks that accompany the use of AI within the insurance sector, and are undertaking work to better understand this, they are also cognisant of the need to refrain from overregulating in a way that stifles growth. Multiple initiatives have been introduced with a view to supporting innovation in the adoption and use of AI within the financial services industry, including AI Live Testing, the Smart Data Accelerator, and the Supercharged Sandbox.

Practical impact

AI has been widely used in the insurance sector for some time, and it is further streamlining distribution, pricing and underwriting, claims, and investments. The adoption and expansion of AI within the sector is only set to increase throughout 2026. However, AI can magnify both conduct and prudential risks when models are poorly designed, trained, or governed. It is therefore imperative that the sector identifies regulatory risks and maintains robust governance.

Post-Brexit developments

Following Brexit, many insurance market participants adopted the "branch back" model in order to minimise Brexit's impact on their operations, particularly where they were reliant on relationships and expertise based in the UK. This model involves an EEA-authorised entity ("EEA Hub") setting up a UK-authorised branch ("UK Branch"). There is a technical legal argument that, as the UK Branch is the same legal person as the EU Hub, UK based employees would be able to draw on the authorisations of the EEA Hub to provide it with ongoing support in respect of its EEA business.

Now that the "branch back" model has matured, we have started to see a number of trends develop, which are likely to continue into 2026:

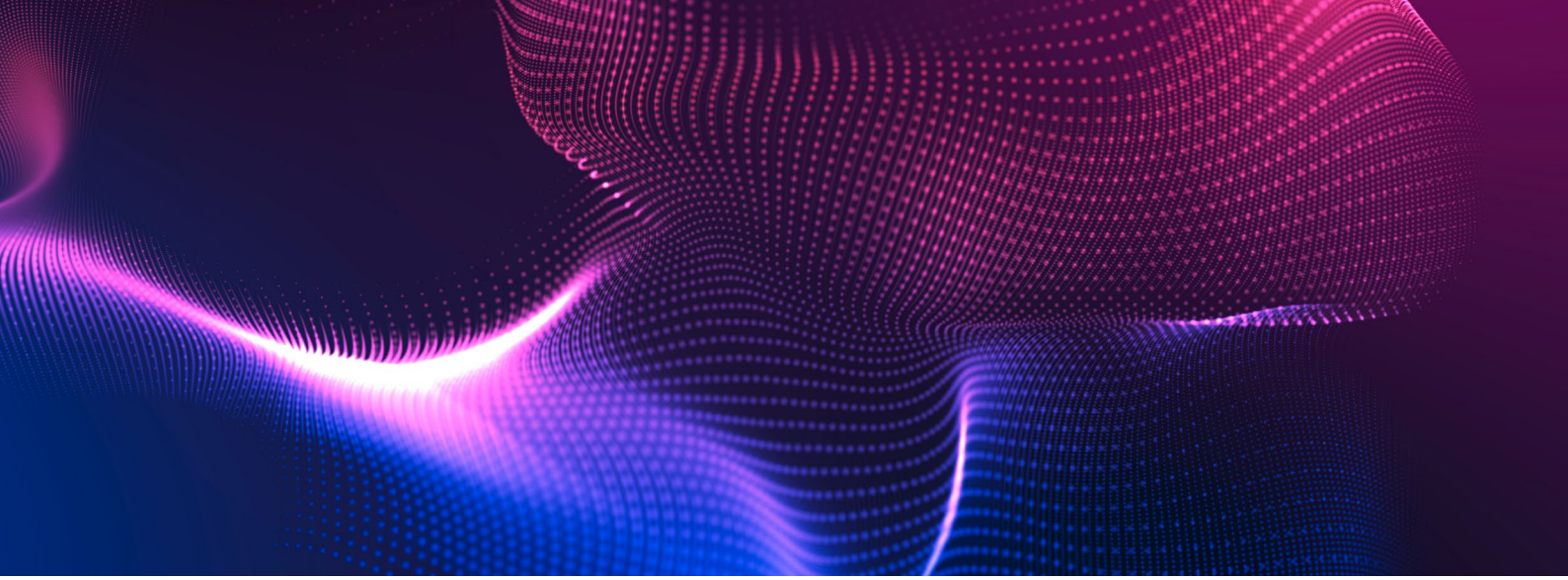
— A number of firms have started to reassess the location of their EEA Hub. This may be driven by legal or regulatory changes in the home state jurisdiction (e.g, EIOPA pressure to more closely regulate known 'hub' entities), or by commercial shifts in the business.

— Various entities have been embarking on Post-Brexit 'tidying up'. Many in the sector had to act quickly to ensure that their post-Brexit solutions were implemented pre-IP Completion Day, resulting in instances of sub-optimal operational arrangements or convoluted group structures. This is particularly the case amongst acquisitive MGAs and brokers, who may have found themselves with multiple EEA Hubs and UK branches within the same corporate group. Firms are reassessing Brexit solution implementation, reviewing market norms, and consolidating.

— New market entrants with aspirations to do pan-European (incl. UK) business have increasingly been establishing only a branch in the UK, as opposed to fully incorporated subsidiaries. This contrasts with firms that were operational pre-Brexit, who now often have a UK authorised entity, as well as a EEA authorised entity with a UK branch.

Practical impact

Five years after IP Completion Day, insurance market participants operating cross-border between the UK and the EEA are well positioned to consider whether the implementation of their post-Brexit solutions, such as the "branch back" model, can be further optimised so as to procure operational efficiencies and reduce regulatory friction.



What's Ahead in 2026: Cross-Cutting Issues

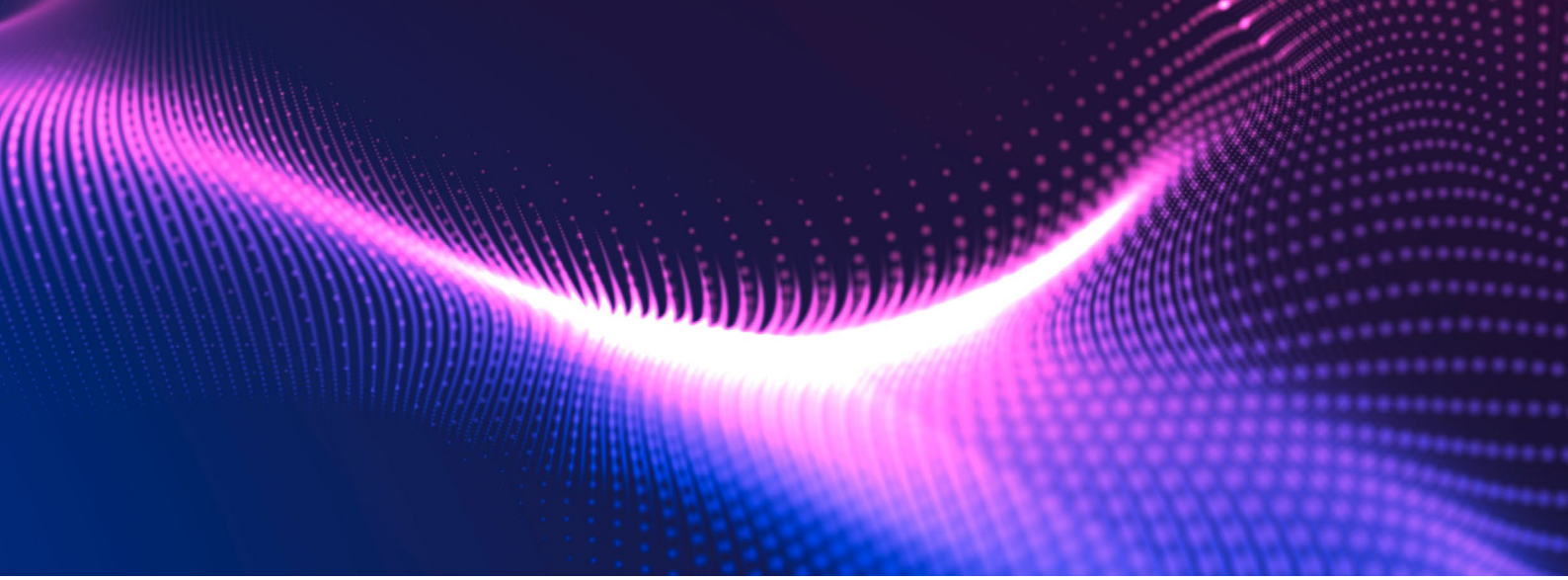
Regulatory change – where will the Leeds Reforms lead us?

Every few years the government proposes a regulatory reset, often in reaction to some economic or operational development. The FSA was split into the PRA/FCA in response to the financil crisis while the FCA promised to sharpen its performance after the London Capital & Finance. More recently the Tory government proposed the Edinburgh Reforms, a lukewarm package seeking to demonstrate the regulatory benefits of Brexit, while the Labour government has advanced the Leeds Reforms, aiming to stimulate economic development by tacking the complexity and burden of regulation.

The Leeds Reforms overlap the substance of the Edinburgh Reforms, but unlike their predecessors, are more likely to make an enduring difference because of the degree of political pressure backing them. This can be shown at three levels.

First, they are supported by a coherent policy, with the four elements of unlocking retail investment, cutting red tape, freeing capital for investment, and promoting innovation. These are political aspirations, and each requires a clear transmission mechanism to convert into tangible change. This is clearest with the "red tape" target, with detailed consultations underway to reform the ambit of the Financial Ombudsman Service and plans to remove the requirement to certify staff at regulated firms. There is also clarity over "freeing capital" with reforms underway or already completed for Basel 3.1, Solvency UK, the PRA's simplification of small deposit taker regulation, and a promise to review the need for ring-fencing large banks.

Second, this approach is baked into the regulatory policy-making process through the parallel adoption of the secondary international competitiveness and growth objective, which applies directly to the PRA and the FCA. This is a key support, and both regulators have stated that it will make a real difference to the way that they operate. The PRA says that, while it will never abandon strong and appropriate prudential standards, it will seek to operate effective regulatory processes and make rules attuned to UK needs while taking an open approach to risks and opportunities. The FCA says that it will seek to reduce the regulatory burden, make it easier for firms to obtain authorisation and expand, and will make rules alert to the need to promote capital investment and accelerate digital innovation. This change in regulatory attitude, if it crystallises, will be what catalyses change.



Thirdly there is a clear accountability mechanism. In addition to the usual annual reports, ministerial catch-ups and Treasury Committee maulings, both regulators now attend six-monthly performance review meetings with the Treasury with the minutes published for public and political scrutiny.

So far so good, but at this point some realism must be brought to bear. There are several reasons why we are not standing on the brink of a nirvana when firms' regulatory shackles will fall away and economic growth will take off. The first is that economic growth depends on a wide range of factors, and issues such as general uncertainty and increased levels of taxation will tend to depress both investment in and the performance of the financial services sector.

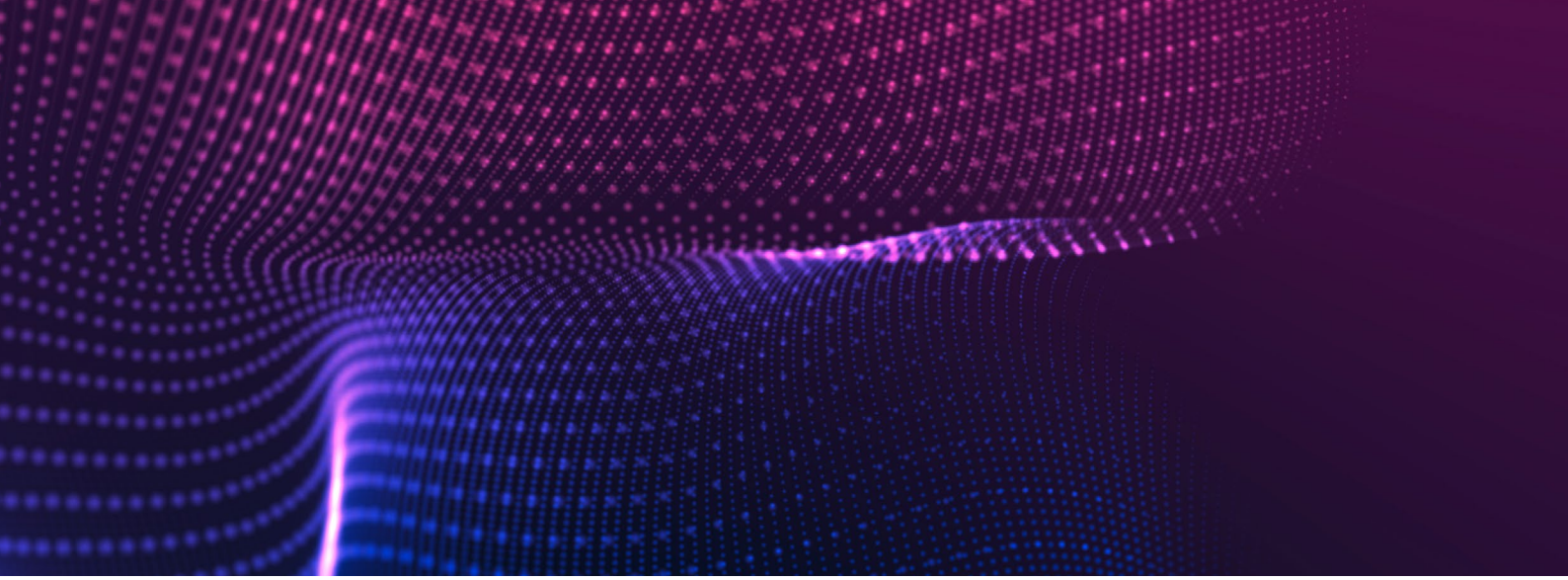
Next, London is alongside New York the world's premier international financial centre. This limits scope for manoeuvre because nothing will destroy its reputation more quickly than lowering regulatory standards to allow weak, undercapitalised or disorganised firms to operate in the City. London must cleave to the best international standards to retain its standing as a global paragon.

Third, there is an underlying concern on the part of the regulators that they are in a double bind – pressed by the government to loosen regulation but liable to be blamed when things go wrong. This is the very point repeatedly made by Nikhil Rathi, CEO of the FCA, to the Treasury Committee. What, he asked, were the metrics for acceptable failure? Would MPs accept double the number of repossessions if home-ownership were encouraged by lowering mortgage eligibility requirements? This notion makes the regulators cautious and, for all their pronouncements, the PRA will remain focused on the safety and soundness of banks and insurers, and the FCA continue to ensure that consumers get what it views as a fair deal.

Lastly, the UK has no shortage of other enemies of growth that this alone won't fix. Brexit was a major shock, detaching the UK from its closest and largest single financial market. While the role of the Ombudsman as a quasi-regulator may have run its course, unpredictability generates uncertainty and deters investment. The most recent instance is the motor finance case, where the Supreme Court has effectively overturned regulatory consensus to result in a major and unforeseen redress programme.

In conclusion

The Leeds Reforms will make a difference, in all likelihood greater than previous attempts at change. But political conservatism, regulatory caution and the reality of a volatile market will act as a drag on this initiative, hindering both substantive reforms and the intended economic growth.



Outsourcing and operational resilience in 2026

As we step into the new year, the financial services landscape is already buzzing with change. Outsourcing was just the beginning – regulators in both the UK and EU are now casting their nets wider to capture all third-party arrangements. And in the world of operational resilience, if 2025 taught us anything, it's that operational resilience isn't just a buzzword, it's a survival skill. We saw a number of high-profile cloud outages that put operational resilience firmly in the spotlight once again and highlighted the sector's reliance on third-party tech. Add the rapid rise of AI and ongoing geopolitical tensions to the mix, and it's clear that firms need to be more adaptable than ever.

Below we highlight some of the key developments that are on the horizon in the coming months.

EBA outsourcing guidelines overhaul

The EBA is giving its 2019 outsourcing guidelines a complete refresh. After consulting in 2025, new guidelines for non-ICT third-party risk are on the way to replace the old framework. Why the change? DORA now handles ICT arrangements, so the EBA is broadening its lens to cover all third-party relationships – not just outsourcings.

Expect final guidelines in early 2026, followed by a two-year implementation period to get your contracts and registers in shape.

Critical Third Parties shake up Op Res

The EU has named 19 Critical Third Parties under DORA, bringing major tech players, including the world's largest cloud service providers, under direct oversight by the ESAs.

In the UK, HMT has yet to designate its CTPs, despite designations being expected in December 2025.

It is likely the UK CTP designations will come in 2026.

UK incident reporting policies take shape

The PRA, FCA, and Bank of England are set to finalise new rules (as proposed in CP24/28 and CP17/24) requiring firms to report operational incidents and material third-party arrangements using standardised templates. The proposals aim to close gaps in current reporting, clarify what is a notifiable incident, and ensure reliable data for regulators.

Final policy statements are now expected to be published in H1 2026, followed by implementation 12 months later.

Digital Omnibus Regulation Proposal

The EU Digital Omnibus proposal was published in November 2025, aiming to simplify compliance across digital regulations. A key feature is the single-entry point for incident reporting, enabling firms to satisfy obligations under GDPR, NIS2, DORA, and others through one secure portal.

One portal beats five separate notifications – but the big question is how this will align with the UK's incoming regime.

The Consumer Duty and supply chains

In H1 2026, the FCA will consult on how the Consumer Duty applies across distribution chains, tackling one of the regime's trickiest areas.

The consultation will clarify business-to-business activity and reliance arrangements, addressing how responsibilities shake out when multiple firms collaborate on products. The Duty itself isn't changing – firms remain fully responsible even when outsourcing, with those closest to customers bearing greatest responsibility.

How can we help?

At CMS, we support organisations of all types in managing regulatory matters and adapting to changes in the financial sector, both in the UK, the EU, and internationally. If you would like to discuss how regulatory developments may affect your business, or if you need guidance on anticipating and responding to new market trends, please contact any of the individuals listed in this publication or your usual CMS contact.

If you are interested in receiving up-to-date information on regulatory developments or sector-specific insights, we would be pleased to assist you.

Asset Management

Ben Maconick
Partner
T +44 20 7367 2868
E ben.maconick@cms-cmno.com

Banks and Investment Firms

Tom Callaby
Partner
T +44 20 7367 2136
E tom.callaby@cms-cmno.com

Fintech and Payments

Chris Glennie
Partner
T +44 20 7067 3288
E chris.glennie@cms-cmno.com

Insurance

Sarah Brook
Partner
T +44 20 7367 3424
E sarah.brook@cms-cmno.com

Financial Services Contentious Regulatory

Simon Morris
Partner
T +44 20 7367 2702
E simon.morris@cms-cmno.com

Operational Resilience and Outsourcing

Angela Greenough
Partner
T +44 20 7367 2198
E angela.greenough@cms-cmno.com

Joy Davey
Partner
T +44 20 7524 6032
E joy.davey@cms-cmno.com

About CMS

CMS is a leading international law firm that provides full-service legal and tax advice to the world's major financial institutions. With 91 offices in 50 countries and more than 7,200 lawyers, CMS has long-standing expertise in its local jurisdictions and can powerfully leverage the CMS network on cross-border mandates.

Our UK Financial Services team regularly advises the leading global investment banks, fund managers, intermediaries, market makers and institutional investors on technical regulatory and transactional matters. Many of our team have spent time in-house at our clients or at the regulators and we seek to develop productive working relationships with our clients and prioritise practical, business-driven solutions.

Further information is available at www.cms.law.

CMS Law-Now™

Your free online legal information service.

A subscription service for legal articles on a variety of topics delivered by email.
cms-lawnow.com

CMS locations:
Aberdeen, Abu Dhabi, Amsterdam, Antwerp, Barcelona, Beijing, Belgrade, Bergen, Berlin, Bogotá, Bratislava, Brisbane, Bristol, Brussels, Bucharest, Budapest, Casablanca, Cologne, Dubai, Dublin, Duesseldorf, Ebene, Edinburgh, Frankfurt, Funchal, Geneva, Glasgow, Gothenburg, Hamburg, Hong Kong, Istanbul, Johannesburg, Kyiv, Leipzig, Lima, Lisbon, Liverpool, Ljubljana, London, Luanda, Luxembourg, Lyon, Madrid, Manchester, Maputo, Mexico City, Milan, Mombasa, Monaco, Munich, Muscat, Nairobi, Oslo, Paris, Podgorica, Poznan, Prague, Reading, Rio de Janeiro, Riyadh, Rome, Santiago de Chile, São Paulo, Sarajevo, Shanghai, Sheffield, Silicon Valley, Singapore, Skopje, Sofia, Stavanger, Stockholm, Strasbourg, Stuttgart, Sydney, Tel Aviv, Tirana, Vienna, Warsaw, Zagreb and Zurich.

Further information can be found at **cms.law**