

The new regulatory imperative for EU and UK insurers



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Introduction

Insurance regulation in the UK and EU is moving from a period of significant revision of the regulatory agenda towards one characterized by greater supervisory scrutiny of regulatory outcomes.

As a result of this shift, we see two key regulatory trends shaping the outlook to 2027.

- **The first is a clear shift from policy and framework design towards demonstrable effectiveness.** Supervisors are increasingly focused on whether insurers can evidence that governance arrangements, controls and data frameworks are operating as intended in practice. For example, UK regulatory frameworks such as the Senior Managers and Certification Regime (SM&CR) and Consumer Duty increasingly require insurers to demonstrate not only that appropriate frameworks and accountabilities are in place, but that they are delivering the intended outcomes. This places greater emphasis on control effectiveness, data quality, traceability of decision making and the availability of robust evidence to support regulatory compliance.
- **The second is an increasing expectation for insurers to manage regulatory obligations through a more integrated, group-wide control environment.** Rather than treating individual regulatory requirements as discrete change programs, insurers are expected to demonstrate how regulatory compliance is embedded within broader governance,

risk management and control frameworks, with clear accountability and appropriate consistency across legal entities and jurisdictions.

As supervisory activity across several areas of regulation moves into assessment and initial evidence cycles during H2 2027, gaps in implementation, control design and evidencing are likely to become more visible. At the same time, the regulatory framework itself continues to evolve.

In the UK, the FCA's Review into the long-term impact of AI on retail financial services (the Mills Review) reinforces the continued importance of established frameworks such as the Senior Managers and Certification Regime (SM&CR) and Consumer Duty, while recognizing that their application may need to adapt as technology, markets and supervisory expectations evolve.

Insurers therefore will need to demonstrate not only that regulatory requirements have been interpreted correctly, but also that changes to those requirements and expectations are translated effectively into accountable governance, reliable data, testable controls and operating practices can be evidenced consistently across the group.

Key areas of focus

1. Operational resilience, third-party risk and cyber

Cyber incidents, technology failures and third-party disruptions remain firmly in the regulatory spotlight, given their potential to affect policyholder protection, customer outcomes, firm safety and soundness, and wider financial stability¹.

In the UK, the regulatory focus is shifting towards more consistent identification, governance and reporting of operational incidents and material third-party dependencies². From 18 March 2027, the FCA and PRA will introduce new requirements for insurers to report qualifying operational incidents and maintain and submit information on material third-party arrangements^{3,4}. The regimes are designed to give supervisors greater visibility of vulnerabilities arising from operational disruption and increasing reliance on external service providers.

This regulatory direction is also reflected in the Association of British Insurers' 2026 guidance, *From Prevention to Resilience*.⁵ The guidance emphasises practical resilience measures including incident response planning, logging and monitoring, secure backups, strong authentication and supplier and third-party assurance. It positions these measures as part of a broader approach to cyber preparedness and recovery, complementing baseline initiatives such as Cyber Essentials.

In the EU, DORA places similar emphasis on insurers maintaining a robust ICT risk-management framework, managing ICT third-party risk and ensuring that contractual and oversight arrangements support operational resilience across the wider technology supply chain.

Taken together, these requirements reinforce that resilience can no longer be considered solely within the boundaries of the firm: insurers need to understand material dependencies, concentration risks and vulnerabilities across critical service providers and their subcontracting chains.

The EBA's final Guidelines on third-party risk management published on September 18, 2026 extend a DORA-aligned, risk-based approach to non-ICT third-party services, with particular focus on arrangements supporting critical or important functions and expectations covering due diligence, contracting, subcontracting, ongoing monitoring, documentation and exit planning across the full third-party lifecycle. Insurers are expected to implement the new guidelines by September 18, 2028.

(continued on next page)

1. <https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/publication/2026/insurance-supervision-2026-priorities.pdf>

2. <https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/supervisory-statement/2026/ss126-march-2026.pdf>

3. <https://www.fca.org.uk/publications/policy-statements/ps26-2-operational-incident-third-party-reporting>

4. <https://www.bankofengland.co.uk/prudential-regulation/publication/2026/march/operational-incident-and-third-party-reporting-policy-statement?>

5. <https://www.abi.org.uk/media-hub/news-post/new-abi-publications-outline-path-to-stronger-cyber-resilience>



Capco's perspective:

One lesson from our work with a large insurance group is that effective third-party oversight starts with a consistent Group-wide framework and clear accountability. A review of third-party risk and supplier management arrangements highlighted the importance of aligning definitions and materiality criteria, embedding risk-based controls throughout the third-party lifecycle, and making ownership and escalation responsibilities explicit. It also reinforced that a framework becomes operationally effective only when supported by decision-useful management information, appropriate oversight of material dependencies and a phased implementation approach that translates policy requirements into sustainable business-as-usual processes.

2. Financial crime

Regulators expect insurers to apply a consistent standard of financial crime control across legal entities, products and countries. This includes accurate customer and beneficial ownership data, effective due diligence, sanctions screening, fraud controls, investigation processes and clearly assigned accountability (EU AML Package). For insurers, life and investment-linked products may carry greater exposure, but every company must identify unusual activity and demonstrate how concerns are resolved.



Capco's perspective:

In supporting a large insurer with a group-wide AML and KYC program, we found that effective implementation of financial crime controls depends as much on operating model and data quality as on the regulatory requirement itself. Differences between products, systems and business areas can make requirements difficult to apply without further analysis. Early data assessment, detailed business requirements, clear governance and validation of third-party inputs were therefore important in reducing delivery risk and avoiding late changes. This is particularly relevant where financial crime controls need to be applied consistently across a complex insurance group.

3. Financial risk

Prudential supervision is moving beyond point-in-time solvency ratios towards evidence that insurers can maintain sufficient capital and liquidity through severe stress⁶. In the UK, the PRA's 2026 priorities highlight the liquidity implications of evolving investment strategies. In the EU, the revised Solvency II framework will apply from January 30, 2027 and introduces a stronger focus on identifying and addressing liquidity vulnerabilities.

For life insurers, the key considerations include long-duration liabilities, less-liquid assets, collateral requirements and changes in policyholder behavior; for general insurers, the focus is more likely to include catastrophe and underwriting shocks, reinsurance recoverability and model reliability⁷.



Capco's perspective:

Our experience of prudential change and insurance regulatory reporting has reinforced that capital, and liquidity should not be managed as separate modelling exercises. Asset liquidity, liability cash flows, collateral, reinsurance, stress assumptions and recovery actions need to be connected through consistent data and clear ownership. A recurring lesson is that management actions included in stress tests must be executable within the timeframes and market conditions assumed, rather than treated as theoretical offsets. A strong capital ratio at the reporting date is therefore only part of the evidence: Insurers must also demonstrate how emerging pressure would be identified, escalated and managed before it affects policyholder obligations.



6. https://www.eiopa.europa.eu/publications/final-report-guidelines-supervisory-powers-remedy-liquidity-vulnerabilities-solvency-ii-review_en

7. <https://www.bankofengland.co.uk/stress-testing/insurers>

4. Finance

IFRS 18 is effective for annual reporting periods beginning on or after 1 January 2027 and replaces IAS 1⁸. It introduces defined subtotals in the statement of profit or loss, new disclosures for management-defined performance measures and stronger principles for the aggregation and disaggregation of financial information. Although IFRS 18 does not change how insurance contracts are measured, it may affect chart-of-accounts mappings, comparative information, performance measures, financial controls, internal management information and how results are communicated externally.



Capco's perspective:

Our work on a major international composite insurer's IFRS 17 program across 12 countries showed that accounting change becomes most challenging at the interfaces between finance policy, actuarial calculations, data, technology and business reporting. Integrated critical-path planning, common governance, process impact assessments and standardized reporting were important in keeping the program aligned. The lesson for IFRS 18 is to begin with an end-to-end source-to-report assessment rather than a narrow financial-statement review. Early decisions on data lineage can reduce late rework and help ensure that statutory reporting tell a consistent story.



8. <https://www.ifrs.org/issued-standards/list-of-standards/ifrs-18-presentation-and-disclosure-in-financial-statements/>

5. Non-financial risk

The FCA's Consumer Composite Investments (CCI) regime moves UK retail investment disclosure towards a more flexible and consumer-focused framework⁹. The transition period began on April 6, 2026 with the full regime taking effect on June 8, 2027. It applies to manufacturers and distributors of relevant retail investment products, including life insurers and insurers providing services relating to insurance-based investments.

Insurers will have greater flexibility over the design of product summaries and customer journeys, while remaining responsible for presenting comparable information on costs, risk and return, and past performance in a way that supports informed decision-making. That flexibility raises the bar for governance, consistency and evidence.



Capco's perspective:

Our experience developing Consumer Duty reporting, together with our assessment of the CCI regime, points to a similar lesson: the main implementation challenge sits behind the disclosure document. This includes ensuring that customer journeys work effectively for vulnerable customers, with insurers able to demonstrate how vulnerability is identified, appropriate support is provided and outcomes are monitored. More broadly, product scoping, source data, calculation methodologies, approval processes, version control, manufacturer-distributor hand-offs need to work as one controlled process. Beginning with a clear product and data inventory, testing disclosures within the end-to-end customer journey and defining post-go-live management information can expose gaps early. Treating CCI as an operating-model, data and control-evidence challenge provides a stronger basis for consistent customer outcomes.

9. <https://www.fca.org.uk/publication/policy/ps25-20.pdf>

What does this mean for insurers?

Across these themes, regulators are asking the same questions:

- What is the risk and who owns it?
- What data supports the control and what happens when it fails?

For insurers, these developments highlight two key priorities as they prepare for 2027.

Take a joined-up view of regulatory change and risk. Assess how emerging requirements affect existing operating models, governance arrangements, data and controls across business

lines and legal entities. Identifying common dependencies and areas of overlap can help insurers prioritize investment, reduce duplication and avoid fragmented implementation.

Ensure implementation is supported by evidence of effectiveness. Evaluate whether existing controls are working as intended and whether management information provides sufficient evidence to support regulatory scrutiny. This includes testing how risks are identified, decisions are made, issues are escalated and corrective actions are taken in practice.

How Capco can help

Our experts can support life, general, composite and specialist insurers in addressing these priorities and translating regulatory requirements into practical, sustainable improvements to their operating models. In doing so, we can help insurers build more transparent, resilient and well-controlled organizations that can demonstrate effective outcomes to regulators, customers, boards and investors.



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About Capco

Capco, a Wipro company, is a global technology and management consultancy shaping change in the financial services and energy industries. For almost 30 years, we have been trusted to help our clients adapt, transform and create long-term value across capital markets, banking, payments, insurance, wealth and asset management, and the energy and utilities sectors. Our deep industry expertise, partnership mindset and award-winning Be Yourself At Work culture are amplified by our strengths in advisory, technology, data and AI innovation. We support our clients to establish clear priorities, connect vision to value, and deliver measurable impact when the stakes are highest.

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