

FEBRUARY 2026

Differentiation driving outcomes in stablizing market

Financial institutions market update

LOCKTON®

Prepared financial institutions will lead

Financial lines insurance conditions in 2025 remained favorable for financial institutions, driven by ample capacity and strong competition. However, insurer exits and profitability concerns signaled a potential turning point. In 2026, insurers are expected to enforce greater rate discipline, seek modest increases in select subsectors, and tighten underwriting standards.

Scrutiny is rising around financial and operational resiliency, fraud, digital assets, AI exposures, cybersecurity, M&A integration, and defense costs. While the market is still favorable, success in 2026 will hinge on preparedness, transparency, strong controls, and early engagement with underwriters.

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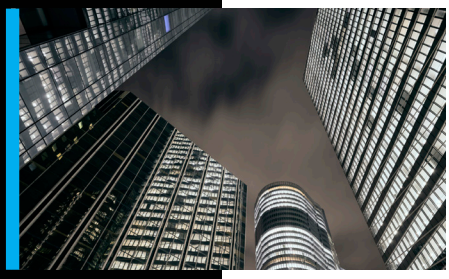
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2025 IN REVIEW

Competitive but fraying at the edges

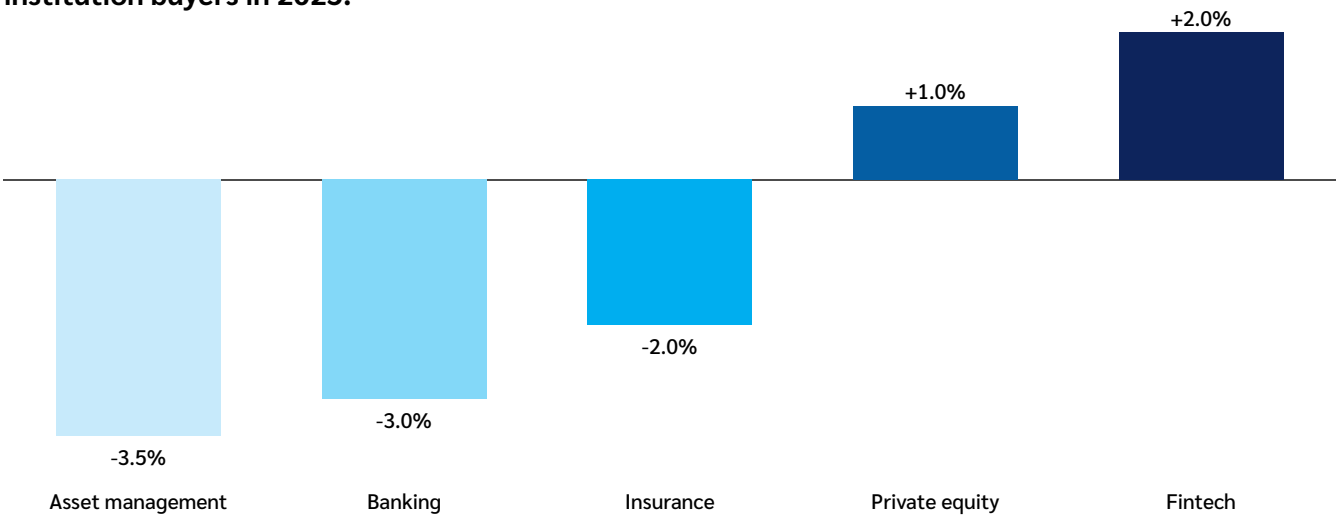
Understanding the market at the start of 2026 first requires a look back at how conditions evolved last year.

Entering 2025, many underwriters anticipated rate stabilization and increases in challenged lines, including bankers professional liability (BPL), insurance company professional liability (ICPL), and general partner liability (GPL). But excess capacity and competition continued to drive pricing down. Even where carriers secured rate increases, they were generally too small to restore profitability, which deepened concerns about the sustainability of current pricing levels.

While select segments saw targeted increases, the broader market remained decidedly buyer-friendly. To retain existing business, insurers frequently competed on price, structure, and coverage terms.

Industry-specific trends illustrate how underwriters are increasingly differentiating between sectors based on perceived risk quality, loss experience, and forward-looking exposure profiles. (See Figure 1.)

Figure 1: Despite insurers' expectations of rate stabilization, the market continued to favor financial institution buyers in 2025.



Source: Lockton
Average year-over-year rate changes in the third quarter of 2025 shown.



Asset management continues to benefit from strong insurer appetite, relatively stable claims activity, and confidence in governance and control frameworks.



Banks remain attractive to carriers given solid capitalization and improving balance sheet resilience. Key concerns for underwriters include:

- Fraud.
- Commercial real estate exposures.
- Regulatory risk.
- Increased M&A activity and related integration risk.
- Banks' expanding engagement with digital assets and related technologies.



Insurance companies saw more modest reductions in 2025 as underwriters remained cautious about bad-faith exposure, social inflation, litigation financing, and ICPL losses. Auto and trucking segments are seeing the biggest increases and facing additional marketplace scrutiny.



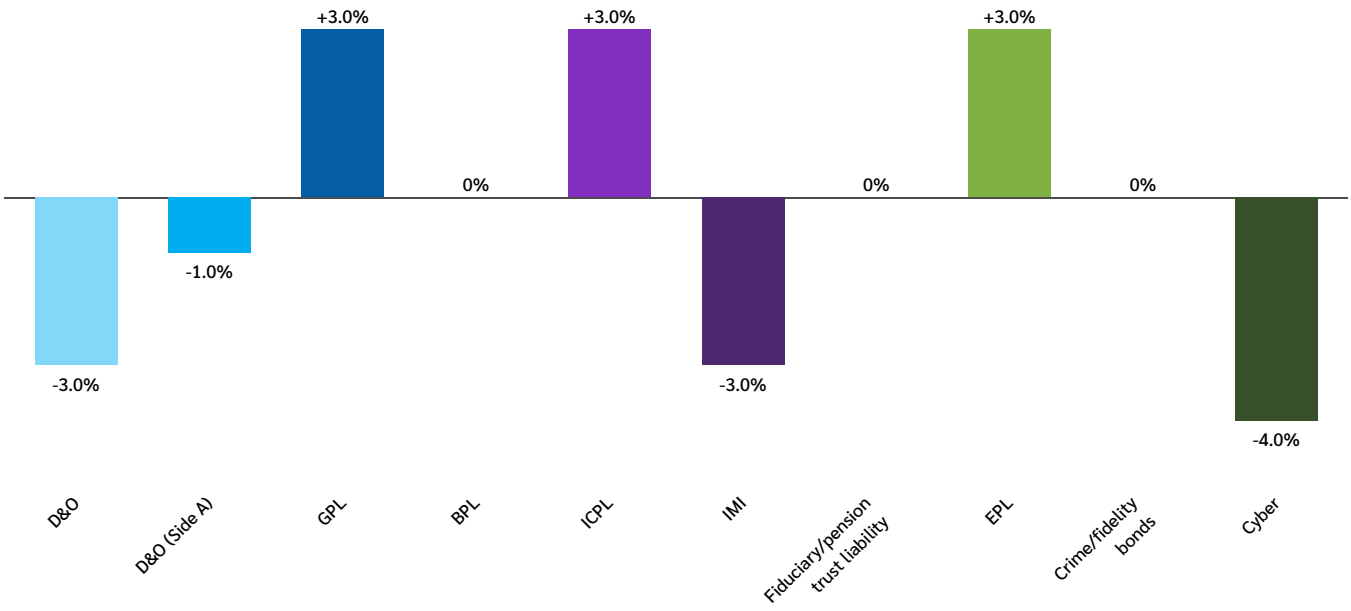
Private equity saw upward pricing pressure on GPL and fund liability, reflecting growing claim severity, continued asset growth, and macroeconomic headwinds.



Fintech pricing is firming modestly, driven by regulatory change and uncertainty, evolving business models, and rapid revenue growth.

Pricing trends in individual lines indicate where insurers are attempting to correct margin erosion and beginning to apply underwriting discipline. (See Figure 2.)

Figure 2: 2025 pricing trends for individual professional and executive lines signal pressure points for FI buyers.



Source: Lockton
Average year-over-year rate changes in the third quarter of 2025 shown.

Several factors drove pricing trends across major lines in 2025:

Pricing for directors and officers liability (D&O) and for Side A programs specifically remained competitive, though rate reductions narrowed.

GPL pricing rose, reflecting historical loss experience, portfolio profitability challenges, and ongoing private equity industry headwinds.

Flat pricing for BPL signaled growing resistance by carriers to further rate erosion in an already thin-margin line.

Rising ICPL pricing reflected elevated loss cost trends stemming from bad-faith exposure, cost of insurance claims, and rising defense and settlement costs.

Investment management insurance (IMI) remained competitive despite rising claims activity, supported by strong carrier appetite and differentiation among insureds.

Fiduciary/pension trust liability pricing was flat, reflecting ongoing concerns around fee-related litigation, fiduciary oversight of service providers, and growth in plan assets.

Employment practices liability (EPL) pricing rose amid increasing claim frequency and expanding theories of liability. Employment laws also became more onerous in several jurisdictions — for, example, California, New Jersey, and Texas.

Pricing for crime/fidelity bonds was flat, as insurers remained concerned about the frequency and severity of social engineering and fund transfer fraud losses, compounded by the increasing speed and sophistication of financial crime.

Cyber continued to experience favorable pricing conditions, though the pace of reductions moderated as FI cyber risk profiles expanded through AI usage, digital asset exposure, and increasingly sophisticated social engineering risks.

PRICING DECLINED

↓ 1.5%

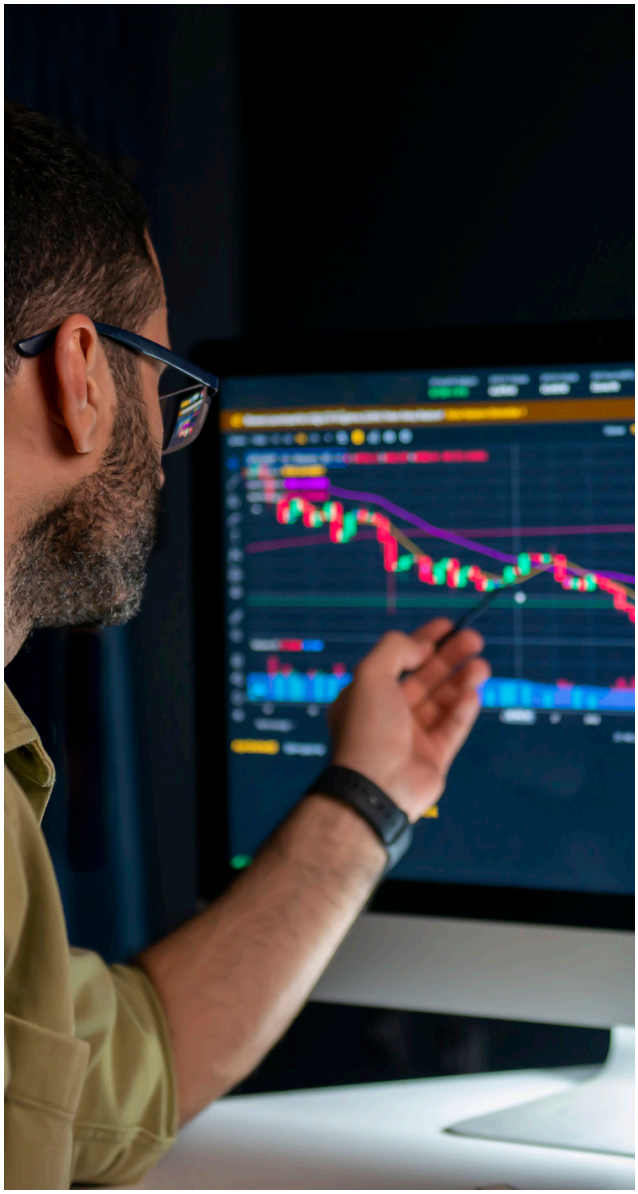
In aggregate, financial institution financial lines pricing declined approximately 1.5% in 2025, indicating a sustained buyer-friendly environment. However, the dispersion in rate movement across sectors and product lines signals a clear shift in underwriting behavior: Insurers are increasingly focused on rate stabilization and selectively seeking pricing improvement on product lines where margins have thinned or profitability has deteriorated. While competition remains strong, underwriting outcomes are becoming more differentiated and increasingly driven by risk quality, loss experience, and exposure profile.

Profitability concerns rising

Recent exits by several insurers from the financial lines market underscore mounting pressure on carrier profitability, driven by deteriorating loss ratios, escalating defense costs, and more disciplined capital allocation strategies. While these exits do not yet signal a broad market correction, they reflect growing concern across underwriting teams about the sustainability of current pricing levels.

Key contributors include:

- Persistently underperforming BPL portfolios.
- Elevated ICPL claim severity, fueled by social inflation and jurisdiction-driven nuclear verdicts.
- Rising IMI claim frequency and severity.
- Increasing EPL claim frequency.
- The ongoing impact of significant paid losses from legacy private equity portfolios, which continue to weigh on overall profitability despite improved underwriting discipline in more recent years.
- Escalating social engineering losses as sophisticated perpetrators leverage AI-enabled deepfakes and impersonation techniques to bypass traditional controls.
- An uptick in vertically integrated firms with expanding service offerings.



As a result, many insurers have been explicit that flat pricing will represent the baseline in 2026, with underwriters prepared to walk away from accounts where pricing, structure, or terms are not commensurate with the underlying risk profile.



Stable premium environment to continue

Renewals in late 2025 showed mostly flat year-over-year pricing, with the exception of buyers with below-market pricing relative to their risk or adverse claims experiences. Incumbent participation was stable, with limited reshuffling of towers seen.

Lockton expects a largely stable pricing environment for financial institutions in 2026. For most insureds, renewals are likely to come in flat year over year, assuming stable loss experience and no material change in risk profile.

Pricing outcomes will be increasingly account-specific. Insurers will likely seek targeted increases where pricing is inadequate relative to the risk assumed or where evolving exposures — such as digital assets, artificial intelligence, or significant strategic changes — alter underlying risk profiles.

Several clear themes are emerging for 2026. Underwriters appear to be:

- Prioritizing margin improvement over top-line growth.
- Applying greater scrutiny to financial institutions engaging in digital asset-related activities, including those investing in, holding, or facilitating stablecoins, tokenized assets, and digital asset treasury functions.
- More closely reviewing fraud and payment controls given escalating social engineering threats.
- Showing greater caution around EPL (limits reductions, higher or earnings-specific retentions).
- Focusing on primary/low-excess layers as deployable capacity becomes more selective. Most insurers believe pricing in higher excess layers has been pushed too low over the last several years and is no longer sustainable.

Key risks

As financial institutions enter 2026, the risk environment remains dynamic and increasingly interconnected. As they evaluate risk quality, pricing adequacy, and coverage terms for the year ahead, financial lines underwriters are focusing on several key risks for financial institutions.

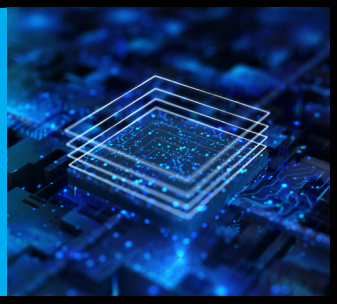


ECONOMIC & FINANCIAL VOLATILITY

Macroeconomic uncertainty continues to shape the risk outlook. Interest rate volatility, margin pressure, and moderating economic growth are testing business models, while liquidity management, leverage, and balance sheet strength remain areas of focus. Strategic responses such as M&A and business diversification introduce additional execution and governance risks that underwriters are closely evaluating.

DIGITAL TRANSFORMATION & AI

As financial institutions scale AI usage, underwriters are focused on governance, transparency, and the impact of automation on controls, disclosures, and compliance obligations. Financial institutions are increasingly leveraging AI for a variety of functions, including fraud detection and prevention, credit and underwriting decisioning, trading and portfolio construction and management, regulatory compliance, claims handling and adjusting, customer service automation, and workforce efficiencies.





REGULATORY VOLATILITY

Despite deregulation at the federal level, regulatory risk remains elevated and complex. Enforcement priorities are shifting rather than disappearing, with states increasingly stepping into perceived enforcement gaps. Financial institutions continue to face heightened exposure from compliance failures, which remain among the most common triggers of D&O and E&O claims. Emerging rules around digital assets, AI, antitrust, deceptive trade practices, and alternative investments add further uncertainty. Underwriters are closely monitoring how institutions adapt to this shifting landscape while maintaining strong compliance and governance disciplines.

DIGITAL ASSETS, STABLECOINS, & TOKENIZATION

Engagement with digital assets is becoming increasingly common across traditional financial institutions. Banks, asset managers, payment platforms, and insurers are exploring or adopting digital asset strategies through custody services, stablecoin-based treasury solutions, tokenized deposits, and programmable payment structures. While these initiatives offer innovation and efficiency, they introduce new operational and regulatory risks that underwriters are monitoring closely.





CYBERSECURITY & OPERATIONAL RESILIENCE

Cyber risk remains one of the most significant and interconnected threats facing financial institutions. AI-enabled attacks, the evolution of ransomware, third-party dependencies, and operational disruptions continue to test financial institutions' resilience. Underwriters are increasingly focused on preparedness, incident response capabilities, and business continuity planning.

FRAUD & FINANCIAL CRIME

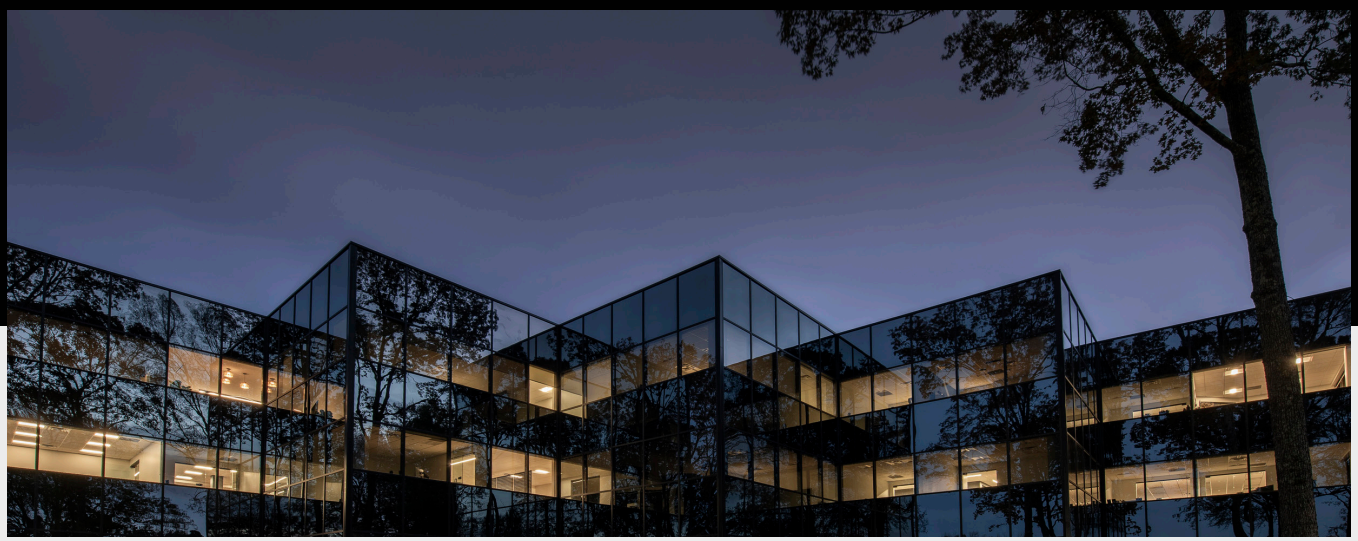
Fraud losses are rising in frequency, and threats are growing more sophisticated. Social engineering attacks, deepfake impersonation, payment fraud, insider misconduct, account takeovers, and synthetic identity schemes are driving losses across crime/FI bond and cyber programs. Underwriters are evaluating the strength of fraud prevention controls, governance structures, verification protocols, and employee training programs, particularly as fraud losses increasingly span both crime/FI bond and cyber insurance programs.





INTERCONNECTED RISK & ENTERPRISE RESILIENCE

Perhaps most critically, financial institutions are grappling with the interconnected nature of risk events. A single event — for example, a cyber breach, vendor failure, regulatory issue, or liquidity shock — can quickly cascade across multiple business lines, functions, and risk categories. Underwriters are closely assessing how institutions identify, escalate, and manage cross-functional risks.





RECOMMENDATIONS

Securing more favorable renewal outcomes

Despite overall pricing stability, margin pressure will persist in several financial lines where profitability has been challenged. In particular, insurers continue to face sustained pressure in ICPL, BPL, EPL, and GPL. Underwriters are focusing on improving margins in these lines through disciplined pricing, capacity management, and selective deployment rather than broad market increases. With this in mind, financial institutions should focus their attention on three key areas.

01 Claims handling



When insurers' profit margins are thin or under sustained pressure, we are increasingly observing a correlation with more stringent claims handling practices. In these environments, carriers may take more conservative coverage positions, require greater documentation, or extend the time required to resolve claims, which can make the recovery of insurance proceeds more challenging for insureds. In some instances, insurers have taken positions that are technically grounded in policy language but inconsistent with insureds' expectations regarding how coverage should respond based on historical practices or market norms.

As a result, it is more critical than ever that insureds work closely with their insurance brokers and — where appropriate — coverage counsel to carefully review insurance contracts. Financial institutions and their advisors should specifically focus on policy terms, conditions, exclusions, and definitions that could be broadly or narrowly interpreted in ways that adversely impact claims recovery.

Best outcomes are typically achieved through early and consistent engagement with insurers throughout the claims life cycle and early policy negotiation periods. Providing timely claim notifications, regular status updates on defense costs incurred, and advance communication regarding mediation or settlement discussions helps minimize surprises, promotes transparency, and facilitates more efficient and constructive claims resolution.



02 Underwriting scrutiny

As the risk landscape for financial institutions is ever-expanding and becoming more complex, insurers are applying greater scrutiny to the quality of risk they are assuming. We expect underwriting to tighten specifically around:

- Financial resiliency.
- Fraud and payment controls.
- Ancillary service offerings that financial institutions continue to explore as options to increase fee-based revenue rather than relying on interest rate-based income.
- Digital asset exposure.
- Private credit risks.
- AI usage, governance, and disclosures.
- Cybersecurity maturity.
- Broader retail investor access to alternative investments.
- Corporate governance.

Insureds that can clearly demonstrate financial and operational resilience, strong internal controls, and effective board oversight are expected to be better positioned to secure favorable pricing, terms, and capacity.



03 Choice of insurers & brokers

As the market evolves, it's vital that insureds increasingly prioritize financial stability, claims-paying ability, underwriting expertise, and long-term partnership when selecting insurers, rather than focusing on short-term premium savings. In an environment characterized by rising claim complexity, emerging risks, and increasingly selective underwriting, alignment with financially strong and experienced carriers is key to building resilient insurance programs and effectively navigating the evolving risk environment.

For buyers, this is a market that rewards preparation, transparency, and strategic engagement with underwriting partners. Effectively doing so requires the aid of experienced broker partners.

Financial institutions should specifically look to their brokers to help them build high-quality submissions that address and anticipate underwriters' concerns, highlighting robust controls and forward-looking risk governance frameworks. Financial institutions should also rely on experienced brokers to maintain strong carrier relationships, which can position them to outperform the market. Ultimately, choosing the right broker can help financial institutions secure more favorable pricing, terms, and structures and ensure their insurance programs remain aligned with an expanding and increasingly complex risk landscape.

Lockton at a glance

As the world's largest privately held, independent insurance broker, we don't cater to shareholders or have external investors, unlike all our peers. This means we answer to the only voice that matters: yours. This independence allows us to create a partnership with you where every interaction, decision, and solution is solely focused on your business risk needs.

65,000+
CLIENTS WORLDWIDE

94%
CLIENT RETENTION

13%
ORGANIC GLOBAL GROWTH

$85B+
PREMIUM VOLUME WORLDWIDE

150+
OFFICES WORLDWIDE

17
CONSECUTIVE YEARS AS BEST PLACES TO WORK

Get in touch

For more information on how we can help manage your financial institution's risks, click the button or scan the QR code on the right to visit our website.

Visit our website

To connect directly with our financial institution insurance team, please click the button or scan the QR code on the right and complete the form.

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