

# Bank of England PRA

## Life Insurance Stress Test 2025 Requirements for the 'Results and basis of preparation' report

10 July 2024 (To be finalised January 2025)



# Life Insurance Stress Test 2025

## Requirements for the 'Results and basis of preparation' report

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# Contents

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<b>Contents</b>	<b>2</b>
<b>Introduction</b>	<b>3</b>
<b>Governance, quality assurance and operational insights</b>	<b>5</b>
Governance	5
Quality assurance	5
Capital metrics and position	6
Operational and risk management insights	6
<b>Section A – Core scenario</b>	<b>7</b>
Results narrative	7
Management actions	7
Assumptions, data and methodology for assessing the scenario	8
<b>Section B – Asset type concentration stress exploratory scenario</b>	<b>10</b>
Results narrative	10
Management actions	10
Assumptions, data and methodology for assessing the scenario	11
<b>Section C – Funded reinsurance recapture stress exploratory scenario</b>	<b>12</b>
Results narrative	12
Management actions	12
Assumptions, data and methodology for assessing the scenario	13
<b>Annex 1 – Abbreviations</b>	<b>14</b>

# Introduction

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- 1 This document sets out the information that firms will need to provide as part of their Life Insurance Stress Test (LIST) submissions. Firms are required to include a qualitative report, referred to as the 'Results and basis of preparation' (RBP), which will complement the quantitative results and is an integral part of the LIST exercise.
- 2 The purpose of the RBP report is for firms to provide information on their governance, quality assurance process and supporting materials for the quantitative results.
- 3 The PRA will use the RBP report to:
  - assess the comparability and robustness of the results, that is needed to support individual firm publication and allow the PRA to form a view on sector resilience;
  - provide assurance that firm specific assumptions and methodologies, and the aggregate results have had appropriate internal challenge and discussion; and
  - support the PRA's supervisory objectives in areas including management actions, modelling capabilities and annuity counterparty risk including funded reinsurance (FundedRe).
- 4 **A holder of a Senior Management Function (SMF) is required to provide a written confirmation that:**
  - a) **the results have had internal challenge and discussion and the CRO has provided the holder of the SMF with assurance that the results are of sufficient standard for the Board to be able to place reliance on them as providing a reasonable representation of the firm's financial position following the PRA scenarios; and**
  - b) **the results are of a standard equivalent to that which is sufficient for external unaudited public disclosure (eg forward-looking financial statements).**
- 5 Although firms may choose to use external validation as part of their assurance process, this is not a requirement. The holder of the SMF providing the confirmation should satisfy themselves as to the adequacy of the process followed.
- 6 It is envisaged that most of the inputs for this report already exist in firms' documentation inventories or are expected to be a natural by-product as firms complete their data templates prior to submission to the PRA.

- 7 Firms are asked to limit their responses to a maximum 500 words per question per scenario unless a different limit is specified. However, it is acceptable for a firm to exceed the limit if it would be unable to provide a materially complete and accurate answer without doing so.

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# Governance, quality assurance and operational insights

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## Governance

G1. Describe your internal governance process for responding to this exercise, including:

- a. the committees that considered and approved their stress-testing methodologies, assumptions, scenario variables and results;
- b. the issues that were challenged by committees and any changes that were made in response; and
- c. provide copies of the Board and/or committee paper(s) relating to the consideration and approval of the stress testing results.

[No word limit applies to question G1(c)]

G2. Explain the extent to which this governance process differs from, or aligns with, the processes used in reporting other unaudited public or private external disclosures, for example capital market forward-looking financial statements or presentations on the business model.

[Suggested word limit: 250]

## Quality assurance

G3. Provide details of your approach to coordinating the completion and review of the scenarios, including:

- a. the seniority and nature of resources;
- b. the level of independence achieved between the analysis team and reviewers;
- c. the scope and area of focus of the quality assurance; and
- d. an outline of any validation checks performed.

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## Capital metrics and position

G4. Provide a summary of the firm's solvency risk appetite thresholds and metrics.

G5. Provide details of any material capital raising during 2024 and any material changes in own funds or solvency from year-end 2024 up to the submission date (eg capital raised, capital repaid, dividends, Part VII transfers etc).

[Suggested word limit: 250]

## Operational and risk management insights

G6. To what extent has this exercise highlighted any gaps or the need for changes in your risk management and risk assessment framework (for example, has it informed any further considerations in own funds, solvency, asset-liability matching, hedging or pricing models)?

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## Section A – Core scenario

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### Results narrative

A1. Provide a narrative response that supports the quantitative results including the change in solvency at each stage within the scenario. This should include:

- a. the implied impacts on own funds, regulatory solvency and liquidity at each scenario stage relative to your risk appetite, including any RAG rating for solvency risk and investment risk;
- b. the reliance on, and security of, any reinsurance or other risk mitigation where relevant;
- c. the key drivers of the movements in own funds, SCR and MCR;
- d. the extent and impact of asset trading and any investment strategy changes, for example, any changes made to the matching adjustment (MA) portfolio credit rating and asset profile;
- e. the impact on the firm-level of any ring-fenced funds the firm may have and the anticipated strength of those ring-fenced funds, and
- f. the implications, if any, for your business model.

[Suggested word limit: 1,000 for each stage]

### Management actions

A2. Provide information on the extent to which permitted management actions have been applied at each stage, confirmation that no allowance has been made for management actions that are not permitted, confirmation that the 'no management action arbitrage' has been adhered to and that investment management actions are consistent with the PRA's expectations under the Prudent Person Principle.

[Suggested word limit: 250]

A3. Provide information for each scenario stage on whether the firm had sufficient eligible collateral to meet its collateralisation requirements, for example on derivatives or reinsurance arrangements. Explain if it was necessary to draw on the firm's prearranged liquidity facilities and the extent to which they were assumed to be used. For Stages 1 and 2, set out whether it would have been necessary to draw on liquidity more than the prearranged liquidity

facilities due to the scenario limiting external trading (note that this is permitted for Stages 1 and 2 so that an MA portfolio can have adequate assets and that there is no loss of protection from derivatives generally). You should explain the firm's liquidity management approach including, where relevant, details of assets it holds and would plan to sell to satisfy collateral calls.

A4. Explain the impact of each material management action, including any trading, on the SCR and eligible own funds at each stage. It is not necessary to quantify the impact of the management actions separately, a ranking by impact is sufficient.

A5. Explain whether the management actions taken were consistent with the firm's stressed solvency risk appetite position, investment risk appetite and their implementation timeframe at each relevant scenario stage.

A6. Please provide a summary of additional management actions not included within the results that the firm could consider during this scenario. This should include management actions beyond those that have been permitted to be recognised in the scenario and the feasible timeline to execute those actions.

## **Assumptions, data and methodology for assessing the scenario**

A7. Confirm whether the MA portfolio matching tests were satisfied for each scenario stage and whether it was necessary to remove any liabilities from the MA portfolios for any scenario stages (and if so why).

A8. Explain whether the financial strength of any individual with-profit funds materially changed during the scenario stages and if this resulted in a material impact on the firm's solvency position.

A9. Explain the firm's approach and method for the calculation of the impact of the scenario. This should include:

- a. sources of uncertainty over the accuracy of results and how the uncertainty has been dealt with in the calculations;
- b. any material assumptions on which the calculations or judgements are based and any differences in these between the scenario stages;
- c. where proxy models or other approximations are used, information on the materiality and accuracy of such approximations. Our expectation is that this information will be based on a firm's existing information for the fitting and validation of proxy models;

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- d. explain how the scenario stages have been applied to the firm's own defined benefit pension funds; and
  - e. any specific approaches agreed with the PRA. For example, some firms apply look-through credit counterparty risk assessments for internal reinsurance arrangements.

A10. Provide an outline that supports the ERM quantitative submissions<sup>1</sup>. This should include:

- a. any management actions taken to restore compliance with EVT tests; and
- b. where ERM internal securitisation is restructured, the changes made to the securitisation.

[Suggested word limit: 250]

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<sup>1</sup> LIST Excel quantitative template data sheets DMT\_ERM and DMT\_ERMassets.

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## Section B – Asset type concentration stress exploratory scenario

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### Results narrative

B1. Provide a narrative response that supports the quantitative results of the change in solvency for Section B. This should include:

- a. the implied impacts on own funds, regulatory solvency and liquidity relative to your risk appetite, including any RAG rating for solvency risk and investment risk;
- b. the reliance on, and security of, any reinsurance or other risk mitigation where relevant;
- c. the key drivers of the movements in own funds, SCR and MCR;
- d. the extent and impact of additional asset trading for the asset type concentration stress, for example, any additional changes for Section B made to the MA portfolio credit rating and asset profile; and
- e. the implications, if any, for your business model.

[Suggested word limit: 1,000]

### Management actions

B2. Explain the impact of different or additional management actions on the SCR and eligible own funds beyond those already captured in Section A. It is not necessary to quantify the impact of the management actions separately, a ranking by impact is sufficient.

B3. Where the asset type stress is applied to ERMs provide a narrative response that should include:

- a. any management actions taken to restore compliance with EVT tests; and
- b. where ERM internal securitisation is restructured, the changes made to the securitisation.

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## Assumptions, data and methodology for assessing the scenario

B4. Confirm whether the MA portfolio matching tests were satisfied for Section B and whether it was necessary to remove any liabilities from the MA portfolios (and if so why).

[Suggested word limit: 250]

B5. Explain any issues encountered in applying Section B's asset type stress. We are particularly interested in the development required to apply individual asset level stresses. This should include where the asset type stress is applied to ERMs outlining the approach to stressing the underlying ERMs so that the downgrade in the notes is consistent with the instructions. Where the firm has chosen to stress property values further, provide the additional residential property stress.

B6. Explain any changes to the firm's approach and method for the calculation beyond those set out in response to Section A. This should include:

- a. sources of uncertainty over the accuracy of results and how the uncertainty has been dealt with in the calculations;
- b. any material assumptions on which the calculations or judgements are based and any differences in these between Section B compared with Section A;
- c. where proxy models or other approximations are used, information on the materiality and accuracy of such approximations for Section B; and
- d. any specific approaches agreed with the PRA.

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## Section C – Funded reinsurance recapture stress exploratory scenario

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### Results narrative

C1. Please provide a narrative response that supports the quantitative results including the change in solvency for Section C. This should include:

- a. the implied impacts on own funds, regulatory solvency and liquidity relative to your risk appetite, including any RAG rating for solvency risk and investment risk;
- b. the reliance on collateral or other security for the funded reinsurance recaptured;
- c. the key drivers of the movements in own funds, SCR and MCR;
- d. the extent and impact of additional asset trading, for example any changes made to recaptured collateral and changes made to the MA portfolio credit rating and asset profile; and
- e. the implications, if any, for your business model.

[Suggested word limit: 1,000]

### Management actions

C2. Explain the impact of any different or additional management actions, including trading, on the SCR and eligible own funds beyond those set out in Section A. It is not necessary to quantify the impact of the management actions separately; a ranking by impact is sufficient.

C3. Explain any specific management actions taken where the collateral recaptured included non-MA portfolio eligible assets. This should include internal restructuring of such assets for MA portfolio eligibility.

C4. Explain and quantify any existing arrangements, for example, internal to group reinsurances, that would ordinarily provide the firm with protection from losses on FundedRe recapture.

C5. Provide a summary of additional management actions not included within the results that the firm could consider during this scenario, beyond those set out in Section A. This should include management actions beyond those that have been permitted to be recognised in the scenario and the feasible timeline to execute those actions.

## Assumptions, data and methodology for assessing the scenario

C6. Confirm whether the MA portfolio matching tests were satisfied for Section C and whether it was necessary to remove any liabilities from the MA portfolios (and if so why).

[Suggested word limit: 250]

C7. Discuss the risks for the collateral arrangement(s) for FundedRe recaptured including the risks from counterparty or any other stakeholder such as the reinsurer's regulator. Justify the collateral adjustments applied for the risks.

[Suggested word limit: 250]

C8. Explain any changes to the firm approach and methods for the calculation beyond those set out in Section A. This should include:

- a. sources of uncertainty over the accuracy of results and how the uncertainty has been dealt with in the calculations;
- b. any material assumptions on which the calculations or judgements are based and any differences in these between Section C compared with Section A;
- c. where proxy models or other approximations are used, information on the materiality and accuracy of such approximations;
- d. issues encountered applying Section C's FundedRe recapture stress;
- e. provide a summary of the breach of a reinsurer solvency condition(s) for the FundedRe recaptured;
- f. provide a summary of the FundedRe recaptured collateral including values as of 31 December 2024 and after the Section A Stage 2 stress;
- g. explaining the revaluation of collateral where the stress has not been directly specified in the instructions including for recaptured ERMs; and
- h. any specific approaches agreed with the PRA.

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## Annex 1 – Abbreviations

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<b>CRO</b>	Chief Risk Officer
<b>ERM(s)</b>	Equity Release Mortgage(s)
<b>EVT</b>	Effective Value Test
<b>FundedRe</b>	Funded annuity reinsurance
<b>FS</b>	Fundamental Spread
<b>IR</b>	Solvency UK regular reporting template prefix
<b>IRR</b>	Solvency UK regular reporting template prefix
<b>LIST</b>	Life Insurance Stress Test
<b>MA</b>	Matching Adjustment
<b>MCR</b>	Minimum Capital Requirement
<b>OF</b>	Own Funds
<b>PRA</b>	Prudential Regulation Authority
<b>RAG</b>	Red, amber, green rating of risk
<b>RBP</b>	Results and Basis of Preparation
<b>SCR</b>	Solvency Capital Requirement
<b>SMF</b>	Senior Management Function