Bank of England PRA

Meeting Summary

PRA/ABI Stress Testing Subject Expert Group (STSEG): Sixth Meeting

21 September 2023

Bank of England Offices, MS Teams

The PRA, observers from HMT and representatives of the following insurance firms: Aviva, Just, Phoenix Group, PIC, Rothesay, Royal London, Legal & General, Scottish Widows Group, Canada Life, M&G

Agenda

1. Reflections on comments made during the previous SEGs, including:
   - General and operational,
   - Scenario design
2. Discussion of disclosure.

Summary of meeting

This meeting started with the PRA responding to some of the members questions. The main points made by the PRA were:

- **Explanation of the various stress tests run the Bank and the PRA**. Insurance Stress tests (including LIST), similar to the banking stress test (ACS) and Supervisory Stress test for the CCPs, are sector-level exercises with design and scenarios targeted to the risks in the specific sectors. In addition to sector-level exercises, the Bank also runs system-wide exercises to address wider risks to financial stability (eg SWES). The two types of exercises complement each other but have different focus.

- **PRA setting out longer term insurance stress testing vision**: The PRA plans to publish an Interim Approach to LIST 2025 in H1 2024 and will ask industry for input on technical and operational aspects of the exercise. The PRA acknowledged the need for sufficient notice for meaningful changes in the design of the exercise and will continue to engage with the industry.
- **Timing of the next stress test:** The PRA currently intends to launch LIST 2025 in Q1 2025 and publish results in Q4 2025. Some of the SEG members expressed preference to run the stress test as part of the year end process and preferred to have calibrations earlier, in H2 2024. They also said that they will need to know the design of the stress test (prior to calibrations) by Q3 2024.
- While **design** of the next exercise is work in progress, the PRA confirmed that:
  - Similar to the LIST 2022, LIST 2025 will use t=0 instantaneous stresses.
  - The exercise will be run on YE 2024 balance sheet.
  - Similar to LIST 2022 no new business will be assumed.
  - There is no intention for feedback loop.

The rest of the meeting focused on discussions of qualitative and quantitative elements of the disclosure.

- **On the level of disclosure**, the PRA said that their current thinking is that the level of the disclosure for LIST 2025 will be at a minimum at a solo level, with a view to evolve the exercise to group-level for future exercises. Some of the industry members responded that capital is managed at a group-level and the whole capital structure of the group is an important part.
- The industry members view was that the **narrative part of the disclosure** was important and should include information on asset mix or high-level description of the risk profile of the firm, its business model and strategy.
- The PRA asked the members for their view around disclosing individual firm **solvency capital ratio evolution** through stages of the scenario (eg waterfall similar to one published at the aggregate level in LIST 2022)[1]. The industry members' view was that this was reasonable and that the solvency coverage ratio should be disclosed for all stages of the scenario. The industry members also thought that this quantitative

[1] **https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/letter/2023/insurance-stress-test-2022-feedback.pdf**

information would need to be accompanied by a narrative around firm risk appetite or profile to provide useful context to explain differences across firms as well as educational narrative around the regulatory framework.

- The industry members raised a question how management actions will be addressed in the design and disclosure. The PRA responded that current thinking is that management actions will be restricted (similar to LIST 2022) to ensure consistency across firms' submissions.
- SEG members have further discussed whether disclosure should include further breakdown of the components of the solvency coverage ratio and consensus was that disclosure of SCR, Eligible Own Funds (EOF) as well as EOF components (such as excess of assets over liabilities, adjustment of restricted own funds, Tier 2 and Tier 3 capital) was reasonable and useful for disclosure users.
- The PRA has also proposed that the disclosure includes information on the selected components contributing to excess of assets over liabilities, such as Risk margin, TMTP or reduction in Technical Provisions due to Matching Adjustment. In particular, the PRA's view is that the disclosure needs to include information on Matching Adjustment on the basis that it represents a material contribution to firm's capital resources as a result shareholders protection in stress. Industry members did not think that disclosing such further details was necessary as it was hard to ensure that disclosure users took away the correct messages as many lacked understanding of MA; disclosure users could misuse the numbers, for example removing the whole MA from capital coverage calculations while other disclosure users do not actually look at this level of detail.
- Industry members also suggested that some information about reserves (and as part of it fundamental spread) was needed to provide a fuller picture.
- Members agreed to continue disclosure discussion at the next SEG meeting on September 28, 2023.