Bank of England PRA

Meeting Summary

PRA/ABI Stress Testing Subject Expert Group (STSEG) – Disclosure Users Group: Eleventh Meeting

28 February 2024

Bank of England Offices, MS Teams

The PRA, the industry co-chair, ABI and HMT observers and representatives of disclosure users: Hymans Robertson, LCP, PWC, S&P, KBW, NatWest Markets, BNP Paribas, Bank of America, an independent analyst.

Agenda

1. Developments since last Disclosure Group Users meeting
2. Objectives and scope for LIST 2025
3. LIST 2025 Design
4. Disclosures

Summary of meeting

This meeting focused on the PRA presenting the design and disclosure package as approved by the PRA internal governance.

First, the PRA covered **objectives** for Life Insurance Stress Test:

- To assess sector resilience to severe but plausible events.
- To strengthen market understanding and discipline through individual firm publication.
- To improve insight into risk management vulnerabilities.

The PRA set out that the firms in **scope** for 2025 exercise will be large Bulk Purchase Annuity firms; non-life firms are not part of LIST exercise.

The PRA also highlighted that in 2025 the exercise will focus on solo level. The disclosure users thought that evaluating the solo entities was the step in the right direction but at the same time stressed importance of understanding group capital structure and potential for wider group support. Some questioned whether the availability of only solo level, in the absence of sufficient group context, could create unintended noise on a group's share price. The PRA acknowledged demand for the group results; the PRA will continue on developing group-level approach for future exercises.

Next the PRA outlined **scenario design**. In particular, LIST 2025 will include one core and two exploratory scenarios.

The core scenario will be designed and calibrated to assess sector and firm resilience. For this scenario, the PRA will set out a financial market stress developing over three stages, to build on the design of LIST 2022. The stages are designed to explain to the market participants mechanics and core components of the Solvency UK regime and how they evolve in stress. The PRA intends to publish core scenario results at the level of each individual firm.

The disclosure users expressed interest in understanding more details around the credit stress in the core scenario, including how its calibration will be set with respect to historical context.

The PRA set out that there will also be two exploratory scenarios to assess emerging risks as well as develop modelling capabilities at the firms.

- The first exploratory scenario will explore asset concentrations and will ask firms to assess the impact of the additional downgrade stress to the asset category most material to their Matching Adjustment benefit (excluding corporate bond and sovereign assets).
- The second exploratory scenario will focus on the risks around Funded Re and will ask the firms to assess the financial impact of the recapture of their most material Funded Re arrangement.

The findings for exploratory scenarios will be communicated at the sector rather than individual firm basis.

The PRA then provided further update on **disclosures**.

For the core scenario, the PRA set out intention to publish results against a set of clear, understandable and rigorous metrics; this will include explaining the results of the stress test in the context of the design of the Matching Adjustment and other elements of the solvency regime. Disclosure users acknowledged importance of providing a straightforward explanation of the Matching Adjustment and Fundamental Spread as there is a wide range of understanding of the topic across the market.

The PRA set out disclosure on starting point asset composition and risk profile to provide context for the stress test results, including where Matching Adjustment is coming from. In general, disclosure users welcomed such disclosure – it was seen as a useful way to draw cross-firm comparisons and to understand the resilience of the sector. Providing disclosure to help understand the credit risk embedded in the Matching Adjustment portfolios was seen especially important given the significance of the downgrade and default stress for annuity firms' business models. Some suggested that additional asset characteristics could be useful to explain differences across the firms.

Disclosure users also welcomed more disclosure around starting point Funded Re exposure as current disclosure in the market is limited and not consistent across firms. They saw some requirements for firm-level Funded Re exposure disclosures as necessary to improve visibility and reduce uncertainty.